

# Public Utilities

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## The Controversy Over the Cost of Current

*The "scandalous" spread between the  
generating and distribution price of power*

### PART I

"If a company pays half a cent a kilowatt hour for electric power and retails it at 7½ cents, it is making 1,400 per cent." So reasons the ratepayer who does not take into account the item of delivering that power. In view of the charges that "exorbitant utility profits are concealed in distribution costs," this series of two articles assumes a timely interest.

By NEIL M. CLARK

JOHN Smith is wondering whether somebody is stepping on his democratic toes. At least, he is being fervently urged to wonder. Smith, as everybody knows, is not a deep thinker or a student, yet of one thing in this complex world he is absolutely sure, and that is, the amount of cash in his personal pay envelope. Quite well, too, he knows how it usually vanishes. So much to the landlord. So much to grocer and butcher.

So much to department stores. So much for the automobile and miscellaneous. Also . . . gas and electricity.

Electricity! Seldom a big bill, of course. But big enough to make a fellow wish it were less; what bill isn't! And John Smith has noticed in the papers what this one and that one has had to say lately about the "power trust." He is naturally rather suspicious. Suspicious of anything

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he doesn't altogether understand. That is part of his equipment of self-preservation. And when he hears one day, no matter from whom or upon what authority, that electricity costs the company only one-half cent for one of those kilowatt hours that he pays  $7\frac{1}{2}$  cents for, he begins to figure. And he concludes that the company is making 1,400 per cent profit.

Who gets it?

As John Smith sits pondering this amazing problem which touches his own pocketbook, a shadow falls athwart the sunshine. The shadow has a voice. It whispers darkly:

"It goes into the pockets of the power trust, John Smith! Your nickels, your dimes, your hard-earned dollars!"

As a flush of anger creeps up John's honest cheek, the shadow goes on:

"Couldn't you make money too, John Smith, couldn't *you* wallow in unholy wealth, if you knew some good way to earn 1,400 per cent profit, and could force people to buy from you or go without? How about it?"

SEED IS SOWN. John Smith is ready to feel convinced of something. All the more so when he learns that the electricity which costs him  $7\frac{1}{2}$  cents, is sold to some rich manufacturing concern for  $1\frac{1}{4}$  cents!

Upon such a foundation of suspicion and doubt and seeming inequality may be reared the structure of a major political issue, with results beyond possibility of calculation. For John Smith votes.

THAT deadly spread between cost and selling price! Expenses of

distribution! It may be that John Smith will not read this article, or any like it in a magazine of this character. But truth, whether it be good or evil, has a way of becoming known even to most of the John Smiths. A thousand devious channels of information carry it to them, sooner or later.

Isn't it, therefore, high time that the truth about that cost-to-selling-price spread, whatever it may be, and the reasons therefor, whatever *they* may be, should be brought into the open and discussed and made manifest in many places, so that in any intelligent man's mind, ignorance of the facts can no longer be a screen and an excuse for wild statements and possibly improper allegations?

Distribution costs in the electric industry are now thought of by not a few as a sort of thick underbrush in which all sorts of dirty work may go unnoticed. Thus a semi-radical weekly refers editorially to the alleged "fact that exorbitant utility profits are concealed in distribution 'costs'"; and talks lightly of "the scandalous spread between the generating cost and the retail price of electric current in the United States."

IF the spread between the generating cost and the retail price of electric power is too great—"scandalous," as they say—may not the pendulum ultimately swing far in the other direction if left to itself?

If the spread is not too great, and if there are adequate and justifiable reasons for it, then all the more does it seem desirable to present the facts in an intelligible and quickly available way. At the present time the state commissions know the facts, or have

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them within reach. Public utility operators know them for their own companies. Statisticians of the industry know them, broadly.

But the public does not know them. John Smith does not know them—and cannot get them. For they are not publicly available in any form readily intelligible to a layman. Governor Gifford Pinchot may have been a trifle muddled in his phraseology and perhaps in his thinking, but he certainly had the right idea when he said:

“It is most unfortunate that this vast field of engineering and social outlay remains uncovered by an appropriate literature.”

Therein, I aver, lies a real danger, a menace not only to the utility companies, but also to John Smith. Unwise public action would be as bad in the end for him as for them.

The whole subject needs airing.

“THE public,” declares a committee of commissioners,<sup>1</sup> “must be heard when it asks for some demonstration that the widespread in the cost to different consumers of the same commodity has a reasonable basis. It is difficult for the layman to believe that one customer can be profitably supplied with a commodity at one cent per unit, while it costs 10

or even 15 cents per unit to supply the same commodity to another customer.”

And the governor of New York can sound very plausible, indeed, when he stands on the platform at the State Fair Grounds and demands to know why electricity in the home “costs as high as from 15 to 20 cents per kilowatt hour in some localities and as low as from 4 to 6 cents per kilowatt hour in other localities.”

Surely the governor has smelled out a rat? Will his audience doubt it? Especially since at the moment addressing those who, in the nature of things, must pay the higher rates—the farmers!

THE present article is not intended in any sense as more than a survey of the field by a layman who likes to know the facts, and is willing to admit at the outset that he doubts very much whether utility operators in general are gleefully stuffing their pockets with vicious distribution profits. This layman has had enough contact with the modern business process to see some logic and merit in pictures drawn by operators, though perhaps without complete public verification, by which they explain the distribution spread. This, therefore, is an assembling of some known facts, and a hazard of opinion as to the entire situation.



“JOHN SMITH learns that the electricity which costs him  $7\frac{1}{2}$  cents is sold to some rich manufacturing concern for  $1\frac{1}{4}$  cents! Upon such a foundation of suspicion and doubt and seeming inequality may be reared the structure of a major political issue, with results beyond possibility of calculation. For John Smith votes.”

<sup>1</sup> Report of the Committee on the Generation and Distribution of Electric Power of the National Association of Railroad and Utilities Commissioners, 1930; page 5.

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It was Ambassador Frederic Moseley Sackett, Jr., you will recall, who more or less officially chased the distribution coon up a tree. And there he still sits, poor coon! Nobody as yet feels particularly concerned about him, but politicians have made him part of the pretext for a lot of popular shouting. The Ambassador, if you remember, said in his address in Berlin:

"I know of no other manufacturing industry where the sale price of the product to the great mass of consumers is fifteen times the actual cost of production. . . . You have by constant improvement driven down thus far the cost of electricity until it can be fairly said an economical station produces current at from 0.3 to 0.4 cents per kilowatt hour. In most great centers of population, in America at least, consumers pay for household service at around 6 cents per kilowatt hour, fifteen to twenty times its cost. Such a discrepancy between the production cost and the delivery price of electricity gives a wide field for study by the distribution engineer."

**T**HESE are sweeping statements, and at first glance seem to point to a damnable state of things. John Smith's 1,400 per cent! The good-natured reply of the industry seems to be:

"Ambassador, there is something in what you say—aside from the fact that your facts are slightly cock-eyed, your terminology misleading! . . ."

Specifically, the replies boil down to two propositions:

(1) It is conceivable that a spread of 30-to-1, or even 100-to-1, or 1,000-to-1, may be justifiable in some industries so constituted that most of the

cost of getting the product to the consumer is *distribution* cost. There are such industries. Major ones. An industry, in short, must be judged by its own problems and situations, not by what holds true for other and dissimilar industries.

(2) In the electric industry as a whole, and in most power companies, the spread between generating cost and selling price is nothing like 15-to-1 when you take into account all classes of business; furthermore, "generating cost" as used in the industry is a term of special and limited meaning *and is not the same as production cost*.

**B**EFORE undertaking any estimate of these replies, suppose we try to get the complete picture. Go back to A-B-C's.

Why does a utility charge anything for electricity? Why not give it away?

Why are customers more or less willing to dig down and pay something for it?

The theory of all business, of course, is that the man or institution which renders a commercial service, must be paid. How much? At least as much as it costs to render the service. Otherwise customers are objects of philanthropy. Charity patients—a status to which many of them object. But in a capitalistic society, where the majority of us hold the battered but apparently useful belief that profit is a more universal and potent incentive to the continuance of good service than any other incentive thus far devised, we go further. We make it the common rule of business to pay cost plus a profit—to the man smart



## The Trifling Cost of Power "At the Switchboard"

**"E**LECTRICITY does cost fabulously little at the switchboard. Between 3 and 4 mills per kilowatt hour in the best steam plants, averaging perhaps 5 mills where the traffic is heavy and diversified and most of the equipment is up-to-date; and running up to 6 or 7 cents and more in some plants and places. There is no exact and universal figure. . . . But electricity at the switchboard is of no value to me or to any other user."



enough to earn it. In ordinary business, where competition can have free play, we let competition and common sense be the business man's main guides as to rate of profit and prices charged. In monopolistic business, such as the utilities, we have adopted the principle of regulation. We say in effect:

"We will allow you utility owners a rate of earning such that, with efficient management, you can recover your legitimate costs and earn a fair rate of return on the invested capital."

There the fun starts! And not merely with regard to what constitutes fair return.

**I**T would all be simple if every customer were situated exactly like every other customer as to location, needs, time of use, quantity requirements, and so on. It would, in fact, be a simple problem in division. (a) So much money to be regained to cover costs and fair return. (b) So many customers. Divide (a) by (b). Make every customer pay the quotient!

Of course, it is not like that. No two customers, even, have precisely the same situation. Besides, there are great classes of customers that differ radically from other classes. It costs more to serve some than others. What to do? That question can cause a lot of headaches. And does.

The rate-making problem is not peculiar to utilities. It enters into all business. The shoe manufacturer who retails his product solves it, as a rule, by charging everybody the same price for the same shoe. His factory may be located in St. Louis. I pay \$10 for a pair of his shoes, my style, whether I buy them in Granite City or Walla Walla. So with many products. Most products, in fact. But in some lines the problem can become enormously complex.

"The ideal rate—" I am quoting authority<sup>2</sup> "—is one which assesses to each customer the true cost of serving him." The simplified formula for doing that is:

- (a) Cover all costs, by
- (b) Allocating to each class of

<sup>2</sup> Report cited, page 5.

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business the proportionate share of costs for which it is responsible.

But here, as elsewhere, the angels have to live with *men*. Ideal and practical are often two things. As on the railroads, to cite a familiar example. It is true, as the governor of New York loves to point out, that we all pay the same fare per mile when we travel as passengers. Nearly all of us. But is that the basic way in which rail rates are made? Freight rates? No! many bulk products simply could not move if such a rule were followed literally. Therefore, rate making on the railroads follows substantially this formula:

- (a) Cover all costs, by
- (b) Charging what you can where the traffic will bear it.

**T**AXATION is somewhat analogous. A problem of rate making, spreading the burden of government more or less equitably among all citizens. The income tax is an obvious case of charging what the traffic will bear. As, perhaps, what tax is not!

Now, in the distribution of electricity we have the problem with variants. Oddly assorted classes of customers. Each with its peculiarities as to use of the product. Consequently, very great differences in the cost of serving them. All of which, from the cost angle, will be gone into in some detail later. For the moment, it is enough to point out that the regulation of electric rates is one place where the effort is made to charge customers fairly, so far as possible, on the basis of cost of service. We know the residential customer in the city may pay  $7\frac{1}{2}$  cents per kilowatt hour for lighting and, by a graduated

rate (what operators like to call the "inducement rate"),  $3\frac{1}{2}$  cents for water heating and cooking, and perhaps as low as  $1\frac{1}{2}$  cents for house heating. Because it is the nature of the industry that the additional units cost less to supply. The country customer usually pays more. How much more depends on many things. Illinois, for example, has fifty-five rural rates. But the amount is based so far as possible on cost of service. The industrial customer may pay only  $1\frac{1}{2}$  cents per kilowatt hour for all the current he uses, and if he is willing to accommodate himself to an off-peak or dump-load rate, he may buy it for considerably less than that.

**A**RE these variations in rate entirely justified by variations in the cost of the service rendered? The report of the committee of commissioners already quoted, says:

"It is improbable that sufficient data will ever be available to eliminate arbitrary opinion entirely from any study of electric costs."

Furthermore, the rule of charging what the traffic will bear does govern to a certain degree even in drafting rates for electricity. Necessarily. The big industrial user, where power is a principal factor in production, must get his power cheaply from the utility company—or competition in his own field may force him to make different arrangements. Does a price differential in his favor operate in the long run to the disadvantage of John Smith? Is John the goat? Or is it a fact, odd but true, that if the large user were not on the line at that sin-

\* Report cited, page 6.

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fully low rate, John himself would have to pay far more than he does? That seems to be the case. It's all in the load factor.

**N**ow we have gone through the A-B-C's! We can go on to a more specific study of the reasons, if any exist, for "the scandalous spread" between electricity's cost price and its selling price.

What tasks are performed in rendering electric service? Broadly, four. They are:

1. Generate it;
2. Transmit it—on high-voltage lines;
3. Distribute it—on low-voltage lines;
4. Administer the company's affairs.

**F**ROM this classification it might seem that number 1, the generating job, would be the one that would give us production cost. As a matter of fact, it is one of the oddities of the industry that "generating cost," in common usage, includes only three items; coal (in steam plants), power plant wages, power plant supplies. Bear in mind that *this* figure is what they are talking about when they say that electricity costs fabulously little at the switchboard. This was what

Ambassador Sackett had in mind. This is what the critics in general seize on to convince John Smith of a damnable 1,400 per cent. What other line of manufacturing, if any, fails to include rent, taxes, depreciation, insurance, as integral factors in production cost? Fountain pens? Hardly! Can you imagine what would be the ratio between cost and selling price of pens, if the manufacturer included in "cost" only direct material and labor and a few incidental supplies? Who, after all, sets the limits and declares:

"This shall be production cost, and that—distribution?"

**T**HE fact is, of course, that the four tasks mentioned above are merely arbitrary divisions in a single task, a continuous process: divisions made for convenience in thought, cost-keeping, and the human dynamics of the industry. A more usual way of classifying utility costs names just two classes:

(1) *Fixed* (or capacity) costs, meaning the necessary and unavoidable interest, insurance, depreciation, and tax charges incident to having a big outlay in generating plant, transmission lines, distribution lines—costs that go on whether or not anybody uses electricity;



**"T**HE public," declares a committee of commissioners, "must be heard when it asks for some demonstration that the wide spread in the cost to different consumers of the same commodity has a reasonable basis. It is difficult for the layman to believe that one customer can be profitably supplied with a commodity at one cent per unit, while it costs 10 or even 15 cents per unit to supply the same commodity to another customer."

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(2) *Operating costs*, meaning the direct cost of making electricity, plus a host of expenses for maintenance, meter reading, billing, bookkeeping, supervision, etc.

**T**HE actual cost of making electricity—that is, the generating cost which the Ambassador loosely referred to as “the production cost” is indeed low. And getting lower.

Electricity does cost fabulously little at the switchboard. Between 3 and 4 mills per kilowatt hour in the best steam plants, as the Ambassador said; averaging perhaps 5 mills where the traffic is heavy and diversified and most of the equipment is up-to-date; and running up to 6 or 7 cents and more in some plants and places.

There is no exact and universal figure. It may vary on a given system. For it all depends. Depends on many things: price of coal and supplies and wages; size of the plant; efficiency and equipment; above all, load factor. Technical advisers to the St. Lawrence Power Development Commission declared<sup>4</sup> that “if St. Lawrence power were supplied *exclusively* to domestic customers, having a load factor of 15 per cent . . . the cost of energy utilized at the generating station would, therefore, be nearly seven times the cost on the basis of 100 per cent use (1.381 mills), or nearly one cent per kilowatt hour, without including the cost of transmission and distribution.” And this is water power, which has an exceedingly low, almost negligible, *generating* cost.

<sup>4</sup> Report of Marketing Board to the St. Lawrence Power Development Commission, January 5, 1931; page 4.

**A** FEW years ago, when it still took 10 pounds of coal in a steam plant to manufacture one kilowatt hour of electricity, the cost *for coal alone* might be 12 or 13 mills, even when the load factor was favorable. But engineers by their diligence, and business leaders by their daring and vision and resourcefulness, have changed all that. Actual operating expenses for generation, excluding fixed charges, for a large city system, averaged as follows over a 5-year period:

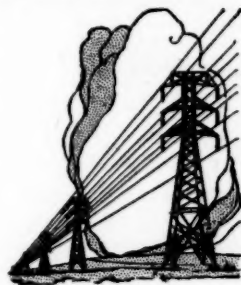
	Mills per Kilowatt hour
1925 .....	8.45
1926 .....	7.90
1927 .....	7.56
1928 .....	6.55
1929 .....	5.87

Other systems would have different figures, but the trend toward cheapness is general. Hence it is entirely true to say that the generating cost of electricity is very, very low, only a few mills per kilowatt hour at the most, with 5 mills not a bad figure to use for argument.

**I**N our homes we pay, we think, a fairly good price for this fabulously cheap product. My own electric light bill declares each month that I must pay a graduated rate which averages, for what I use, about 6½ cents per kilowatt hour. Granting moderate plant efficiency, this is obviously many times the generating cost. Is some monopolistic octopus getting rich at my expense? In this case, no! For where I live we have a modest but fairly well-managed village municipal plant, and in spite of a higher rate than in neighboring villages where “the power trust” serves, it just makes both ends meet nicely.

## The Spread between Production Costs and Distribution Costs Depends on No Hard-and-Fast Law

**"I**t is conceivable that a spread of 30-to-1, or even 100-to-1, or 1,000-to-1, may be justifiable in some industries so constituted that most of the cost of getting the product to the consumer is DISTRIBUTION cost. There are such industries. Major ones. An industry, in short, must be judged by its own problems and situations, not by what holds true for other and dissimilar industries."



*By selling electricity to me at not less than thirteen times the generating cost!*

We are out in the full sunlight when we talk about generating costs, because they are well established, the facts are widely published and available to everybody, and operators like to compare notes and tell how little they make the stuff for. But electricity at the switchboard is of no value to me or to any other user. The company must erect poles and string wires and bring the product to my door. It must put in a meter, and read it every month, and test it every so often. It must have men at my beck and call if the service goes bad. It feels it must have bookkeepers and billing clerks to send me a beastly bill every month. And in case I don't pay, it must have collectors who can run faster than I can.

It counts up. Yes, it surely does! And as my lay word on such a matter is worth little or nothing, may I quote Governor Franklin Delano Roosevelt's commission investigating hydroelectric possibilities on the St.

Lawrence? The commission<sup>5</sup> has said in official black and white:

"The capital cost of the transmissions may equal the total capital cost of generating the power and the capital costs of distribution throughout the state are certain to be in excess of the capital cost of operation. The operating costs of water power and transmissions are relatively low, but the operating and administrative costs for distribution are, at present, many times the other operating costs."

**A**ND Chairman Harold E. West of the Public Service Commission of Maryland, has this to say in a personal letter concerning distribution costs:

"We have gone into that matter very thoroughly from time to time, and such information as we have is contained in the testimony submitted at hearings before the commission. We have not attempted to segregate and tabulate that information. . . . Such costs are so variable and change so rapidly with the development of the industry that, even if we spent a great deal of time and money on distribution cost studies, these studies would not be of value for any great length of time. We do know that the distribution cost is the greater part of the cost of electric service to the consumer and that so far as the domestic consumers are concerned the production costs of electricity might very well be ignored completely. In our successive reduc-

<sup>5</sup> Report cited, page 4.

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tions in rates to domestic consumers we have wiped out production costs time and again, for those costs only amount to between 5 and 6 mills per kilowatt hour. The rest of the cost to domestic consumers is made up in distribution and service."

I have other authorities. Many other authorities. But perhaps these are ample.

**W**HAT we have achieved thus far in the study of our problem seems to come to this:

A. Generating cost of electricity is low—as low as critics of the industry say—and is getting steadily lower;

B. Generating cost is a term of lim-

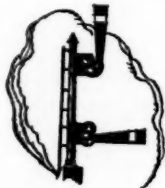
ited meaning, and does not include all there is to production cost.

c. Over and above generating cost, there are other costs "many times" as great.

It now remains to inquire to some extent into these other costs. To poke our fingers around and see what we can find. In a subsequent article we shall try to do so. If we find ourselves entering twilight where hitherto there has been sunlight, must we conclude that the shapes we meet lack flesh and bones?

We shall see.

IN the second and concluding article of this series Mr. CLARK will report the results of his inquiries into what the costs of distribution are and why they vary so greatly in different localities.



## Oddities About the Utilities Overseas

TWENTY-FOUR cents a word is the standard rate for radiograms transmitted from passenger planes flying between Berlin and Vienna.

IN order to cut short telephone conversations, phone booths in Berlin are being constructed with glass walls that expose the customers to public view.

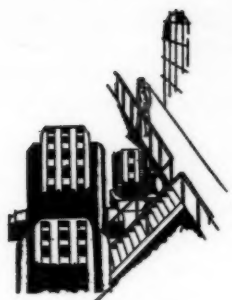
It was only after the telephone had been in use for over twenty years that the royal family in England graciously allowed its installation in Windsor Castle.

IN Germany—where the government runs the railroads—the censors held up a motion picture that showed a train wreck "because it might cut down the sale of tickets."

AIRPLANE passengers will be scrubbed, sprayed, and fumigated, as a measure for enforcing quarantine regulations—if the plans of the International Commission for Air Navigation carry.

MOTOR coach minstrels, bus bards, and other traveling troubadours who made a practice of performing on public conveyances in England have been curbed in these activities in the new British regulations.





# Should the Municipal Power Plant Be Taxed?

## *How Oregon Is Tackling the Problem*

THE railroads and privately owned utilities are paying 15 per cent of their gross earnings into the coffers of the state, amounting to several million dollars a year; the government-owned utilities are tax exempt. "Tax the municipal plants and make them pay their fair share of government," demand the taxpayers. This article tells what the Oregon legislature is doing about it.

By OSWALD WEST

EX-GOVERNOR AND FORMER CHAIRMAN OF THE  
RAILROAD COMMISSION OF OREGON

**T**O tax or not to tax municipally owned light and power projects, was a question prominently before the last session of the Oregon legislature.

The champions of public ownership, as a rule, did not take kindly to the idea of subjecting their pets to taxation. On the other hand, many students of tax reform and many overburdened taxpayers insisted that all such properties should be placed upon the tax rolls and, like their private competitors, made to pay a just share of the cost of government.

The action of the legislature was in the nature of a compromise. While refusing to subject the properties of

existing municipal plants to taxation, it provided that all projects constructed under the new public utility district law should find their way to the tax roll. It further provided for the appointment of a legislative committee to study the question and report its findings to the next session.

**S**INCE the light and power field in Oregon is very largely occupied by privately owned concerns, the absence of the few small municipally owned plants from our tax rolls has not worked any great hardship on the average taxpayer. However, the situation holds promise of developing into a serious question—one that may, in-

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deed, further complicate the already muddled condition of tax affairs.

THE tax situation in Oregon differs little from that of other states. Most states have been operating under tax systems handed down to the American colonies from the dark ages. When one becomes familiar with the troubles of a single state, one knows the troubles of practically all. It is the same old story of constitutional limitations, general property tax, outworn methods, greed, politics, and general stupidity.

Owing to antiquated constitutional provisions, Oregon for years was tied down to a system of *ad valorem* property taxation. As applied in Oregon, a "general property tax" meant a "tax on all property, with certain specific exemptions, for both state and local purposes, no regard being given to the value arising from the particular use to which the property was put or the way in which it was organized for industrial ends."

The constitutional provisions were found so unnecessarily rigid that they were not always strictly observed. It was only through liberal interpretation by the courts that any progress was permitted. Exemptions not authorized by the Constitution were allowed and, by common consent, numerous classes of property were omitted from the tax rolls. As it was next to impossible to reach intangibles and other sources of wealth unknown to, and undreamed of by, the framers of the Constitution, the burden of taxation fell almost entirely upon the holders of visible wealth. Real property shouldered, and for years continued to carry, the bulk of

the load, and it is just now, at the point of exhaustion, that it holds hopes of being relieved of some of its burden.

AFTER years of futile attempt to correct some of the equalities in taxation, it became apparent that constitutional changes were necessary. In the preparation of amendments, the recommendations of the National Tax Association were followed. These amendments were several times submitted to the people for approval but without success. Finally, however, they were approved, and the way was opened for tax reform.

In the meantime material amendments to the Oregon tax laws had been adopted. A state tax commission was created and the duty of assessing the properties of railroads and public utilities was placed in its hands. This change in the system brought an increase in the value placed on such properties for purposes of taxation and greatly increased their tax burdens.

The tax commission soon found that while it was assessing such properties at around 75 per cent of their actual value, real estate in general was being assessed by county officials at about 40 per cent of its value. To protect the railroads and utilities against such unfairness in assessments, the commission found it necessary to adopt such ratios as would equalize the assessments.

The records show that in 1926 railroads and utilities (other than water companies and private car companies) paid, under the general property tax, \$6,350,000—an amount equal to 7.86 per cent of their gross earnings.

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Had they been subject to the California plan of gross earnings tax they would have paid but \$5,425,000 or 6.72 per cent of their gross earnings.

It will be seen, therefore, that even under the general property tax, the railroads and utilities of Oregon have been contributing liberally towards the support of state and municipal government. The above figures do not cover gross earnings taxes imposed by the state for support of the public service commission or city franchise taxes. The railroads and privately owned utilities of Oregon will, in 1931, pay 15 per cent of the state's *ad valorem* taxes—an increase of 60 per cent over 1921.

THE major, privately owned, hydroelectric utilities serving Oregon return to the state and its municipalities in the way of taxes approximately 13 per cent of their gross earnings from all sources. It is likely, therefore, that taxpayers will think twice before taking over these properties for operation as public enterprises and thus remove them from the tax rolls.

THE properties of all utilities, whether publicly or privately owned, should grace the tax rolls and no discrimination should be practiced in fixing their value for such pur-

poses. In no other way can a project show the public just what kind of a run it is getting for its money. No just comparison of the rates and charges of publicly and privately owned utilities can be made so long as one class is permitted to go tax free and the other loaded with burdensome taxes. The public ownership crowd are prone to point to the low rate schedules of certain of our municipally owned plants and say:

"See what can be done under public ownership."

Taxes and depreciation charges mean nothing to them.

OWING to natural advantages, Tacoma's municipal light and power plant is in position to offer its patrons most favorable rates. Its schedule has become the rule by which the reasonableness of the rates of all privately owned projects are measured and judged by the public ownership folks.

In 1928 when the public ownership idea first intruded upon the people of Portland, Tacoma was pointed to as a shining example. It was contended that, with as low industrial power rates as Tacoma, Portland could attract industries by the score and would grow by leaps and bounds. But it is not explained, however, why Tacoma had not become an industrial



**Q** "SHOULD the private light and power companies operating in this state be relieved of taxes amounting to 15 per cent of their gross earnings, they could easily grant a reduction in rates without affecting their earnings. On the other hand, if the municipal plants operating within the state were subjected to a similar tax, they would be obliged either to increase their rates or suffer a material loss in earnings."

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city, nor why Portland had enjoyed far greater growth. Nor did they justify Tacoma's heavy tax rate—a rate approximately 50 per cent higher than Portland's—a burden that more than offset all advantages offered through lower power rates.

**T**o compare the benefits: Mr. Average Citizen of Portland, owning a home assessed at \$2,000, would pay an annual tax of \$97.60 and a light bill of \$25. If living in Tacoma, his tax bill would be \$147.60, or \$50 more than in Portland. Had he lived in Tacoma and enjoyed free light service his annual burdens (on account of higher taxes) would have been \$25 greater than in Portland.

A further example: The property of the late Senator George W. Joseph—champion of public ownership—was assessed in Multnomah county at a valuation of \$43,860. His Portland tax was \$2,140. In Tacoma his tax would have been \$3,236.50. Though living in Portland, where he was served by a privately owned, tax-paying, light, and power concern, and escaping Tacoma's higher tax rate, Senator Joseph saved a little more than \$1,000 a year.

It was shown that the Meier and Frank Company (of which Oregon's present governor was the directing head), was assessed in Multnomah county at \$2,525,620. Its Portland tax amounted to \$123,250.26. In Tacoma the tax would have been \$186,390.76, or \$63,140.50 more than in Portland. The company's annual light bill amounted to \$27,263.87. It will be seen, therefore, that owing to lower taxes, this concern was enjoy-

ing a saving of over \$35,000 through maintaining its business in Portland. None of the parties could have afforded to move to Tacoma even had they been offered free light and power service.

**I**T will be seen, therefore, that the question of taxation must be taken into consideration when comparison of the rates of public and private projects is being made. It is evident that, should the private light and power companies operating in this state be relieved of taxes amounting to 13 per cent of their gross earnings, they could easily grant a like reduction in rates and without affecting their earnings. On the other hand, if the municipal plants operating within the state were subjected to a similar tax, they would be obliged either to increase their rates or suffer a material loss in earnings.

In spite of the heavy tax burdens carried by the private power concerns which serve Portland and surrounding territory, they maintain as favorable rates as any municipal plant in the state and, in most instances, lower rates.

The principal properties, of one private company serving Portland, are located in Clackamas county and its tax contributions to that county are not to be sneezed at. Should these properties be taken over by the city of Portland and thus be removed from the tax roll, increased tax burdens would accrue to the other property owners of that county and without their receiving corresponding benefits.

**I**N order to reach millions of untaxed wealth and thus more equal-

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ly distribute the burdens of taxation, Oregon, a few years ago, adopted an income tax law. After one year's operation, it was repealed. Several attempts to reinact it having failed, the legislature, due to pressing demands from an outraged public, passed an excise tax law applying to banks and other moneyed institutions, an intangible tax law, and a personal income tax law. The three were offered as a poor substitute for the old income tax law. However, this program, with all its defects, holds out promise of relief to real estate, including the utilities.

The late and lamented Governor Withycombe, when addressing an audience, usually said: "My friends, Oregon is a great state." I am pleased to endorse the statement. Oregon is a great state—great because of its wealth of resources, great because every man and woman within its boundaries is not only a politician but a statesman. Each is capable of solving any political or economic problem presented, but somehow he never gets around to it. There is hardly a man in the state who cannot give our greatest living economists cards and spades and defeat them in a discussion of the tax question. Yet Oregonians have floundered along for years, suffering the burdens of an antiquated tax system. They know

more about irrigation than any one in the United States Bureau of Reclamation, yet they have on their hands a lot of defunct enterprises—fruits of an ill-advised irrigation district law—that are in default on their bonds and crying out for reorganization. They know more about finance than does Wall Street, yet they are all carrying around discredited bonds slipped to them by some high pressure salesmen. They oppose the entrance into the United States of Russian convict-made lumber, yet they are endeavoring to sell to Europe flax products manufactured at the state penitentiary with convict labor. They fathered a campaign to put settlers on their idle lands, but gave up the job when their farmers raised a kick. They decided it was not well to increase their population when the labor unions gave cold welcome to the stranger looking for a job. Last year they were out to get industries through the public development of their hydro-power resources and the sale of cheap power. Having decided to turn the matter over to their newly elected governor, they are now giving our thought to another campaign—one directed towards selling the state to tourists.

Oregonians are a fine people. But, at times, they do cherish some queer ideas.

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### Some Unstabilizing Aspects of a Unique New Commission Law

*The popular demand that recently expressed itself in Oregon for more stringent regulation of the public utilities has been finally crystallized into legislation which was designed to be radical—but which, strangely enough, is actually reactionary. An analysis of this new legislation will appear in the coming issue of PUBLIC UTILITIES FORTNIGHTLY.*



# Current Trends in the Regulation of Power Companies

## PART II

What the courts and commissions have decided during the past year about what the utility companies can and cannot do about merchandising, rate cutting, abandonment of service, mergers, and security issues.

By ELLSWORTH NICHOLS

**A**LONG with the propaganda against chain stores in this country, and frequently in connection with it, there has been a strong drive against merchandising by public utility companies. In one of the states a ruling was made that a public utility company was subject to a chain store tax where it sold appliances in different communities.

The right of an electric utility to engage in the merchandising business was sustained in Pennsylvania. The utility was chartered for the purpose of supplying heat, light, and power by electricity, but the court held that it was lawfully acting within the scope of such charter when it sold, as an incident to its regular utility business, electrical appliances by means of which power was delivered to and utilized by consumers.<sup>14</sup>

<sup>14</sup> Com. ex rel. Baldrige v. Philadelphia Electric Co. 300 Pa. 577, P.U.R.1930D, 7.

Aside from the question of a public utility's right to engage in the sale of merchandise, there is the problem of accounting for the expenses and revenues of this business. In several instances decisions have been made that the sale of merchandise is not a public utility business and should not be confused with the utility business. The Wisconsin legislature has required utilities to keep the accounts of the two kinds of business separate.

**A**s a result of this statute, the Wisconsin commission adopted rules governing separation of the accounts. The commission was of the opinion that the statute required the segregation of such accounts regardless of the motives the utilities might have for entering the merchandising field, and notwithstanding the fact that such a utility might be selling merchandise to stimulate service con-



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sumption rather than to profit from such sales.

The commission also held that contract and jobbing work carried on by public utilities was included in the business of selling merchandise and appliances for the purpose of segregating merchandising accounts.<sup>15</sup>

Lamp renewals made by an electric utility for customers without specific charge, or at a price less than the price charged to parties not entitled to lamp renewal allowances, were, however, not treated as merchandise for the purpose of segregation. A similar ruling was made in Illinois.<sup>16</sup>

THE District of Columbia Public Utilities Commission has also taken action on the segregation of merchandising accounts. It has ordered the utilities in the District to keep merchandising accounts absolutely separate and apart from any operating revenue, or expense, or other accounts that might be used in rate-making proceedings. The commission expressed the view that the cost of handling, displaying, and marketing such commodities should not be borne by the consumers as a whole, nor taken into consideration in arriving at any rate base.<sup>17</sup>

RATE cutting, which has been partially abolished under the public service commission laws, is still in effect in some communities. An example of this practice was brought to light in Montana, where a company

had established very low rates to meet competition. After competition had been eliminated, the utility raised its rates and applied to the commission for approval. The commission stated that the utility had a right to establish rates below the plane of just and reasonable rates for the purpose of promoting some policy of its own, provided that it did not imperil its ability to render adequate service. The commission was of the opinion that in passing upon the reasonableness of the proposed rate, it must be governed by the provisions of the statute creating it and subordinate to constitutional guarantees against confiscation, regardless of the fact that the utility had, of its own accord, previously placed into effect a rate insufficient to pay out-of-pocket expenses, and upon which numerous consumers were induced to take service.<sup>18</sup>

In California electric rates of a public utility company which had been temporarily reduced at its own request to meet the rates of a municipal plant competing in its service territory, were made permanent upon a showing that the rate of return yielded was approximately 7.03 per cent of the company's investment as shown by the company's books with land accounts adjusted to current values.<sup>19</sup>

The Georgia Power Company also ran into difficulties in regard to rate cutting to meet competition. A plant was constructed by a county in which the company operated. The county plant cut rates below those of the utility. The utility retaliated by making

<sup>15</sup> *Re Accounting for Merchandise & Appliances Sales (Wis.)* P.U.R.1930E, 204.

<sup>16</sup> *Consumers Sanitary Coffee & Butter Stores v. Commonwealth Edison Co. (Ill.)* P.U.R.1930D, 321.

<sup>17</sup> *Re Accounting for Gas Companies (D. C.)* P.U.R.1931B, 436.

<sup>18</sup> *Re Bowdoin Utilities Co. (Mont. 1930)* P.U.R.1931B, 20.

<sup>19</sup> *Re Los Angeles Gas & E. Corp. (Cal. 1930)* P.U.R.1931A, 132.

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a cut in rates even below the level established by the county plant. The utility was then ordered to appear before the commission to show cause why the same level of rates should not be established in its other territory. Application was made to a court to restrain action by the commission, but relief was denied.<sup>20</sup> The company then filed a new schedule of rates equal to those of the county plant.

**A** MUNICIPAL electric plant operated by the city of Jamestown, New York, proved a thorn in the side of a private utility with which it competed. The city rates were alleged to be too low, and insufficient to meet the cost of operation. The city charter required the rates to be adequate to cover the entire cost. When the company complained to the New York commission, the complaint was dismissed, but on appeal to the state court it was held that the commission should have acted.<sup>21</sup>

Among the points decided by the court were the following: The electric company was a proper party to resort to the commission for relief; the city had no inherent rate-making power; the charter provision that the municipal plant should not sell electricity at less than cost and

that city officials should determine the price, was not in conflict with a law giving to the commission the power to regulate such rates generally; and the commission had power either to raise or lower the rates and to determine the cost of the electricity.

**W**HETHER the entire business of a public utility company or separate divisions of the business shall be considered in determining the results of operation, is a question frequently presented. Courts and commissions have quite generally held that if the entire enterprise is profitable the company cannot claim confiscation because of low rates or because continued operation of a particular branch is demanded. But in order to avoid discrimination between classes of customers or between localities, the policy of compelling each branch of the business to be self-supporting has been approved.

In Tennessee, however, a street railway system, an electric system, and a water system, all controlled by the same company—an electric utility—and operated generally to serve the same class of people, were, for the purpose of fixing rates and plant values, treated as a single corporate entity.<sup>22</sup>

Another phase of this problem was presented in South Carolina, where,

<sup>20</sup> Public Service Commission v. Georgia Power Co. (Ga. Sup. Ct.) P.U.R.1931B, 225.

<sup>21</sup> Re Niagara, L. & O. Power Co. 229 App. Div. 295, P.U.R.1930D, 58.

<sup>22</sup> Re Tennessee Electric Power Co. (Tenn.) P.U.R.1930E, 312.



**Q** "AN electric utility should use its best efforts to advise customers concerning the schedule under which the rates will be lowest, and in some cases a refund has been ordered where customers have not been placed upon the best schedule."

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on appeal to the United States Supreme Court, it was held to be within the constitutional power of the state to refuse to permit any partial abandonment, by a combined street railway and light utility, of its consolidated franchises through the discontinuance of its street railway service, if the act of the state permitting such consolidation was based upon the agreement of the combined utility to conduct both services as one business, and if the business has in fact been so conducted.<sup>23</sup>

It was further decided that a merger act permitting the consolidation, sale, or transfer of utility properties cannot be taken to authorize the breaking up of a unified franchise of a combination street railway and light company in such a manner as to relieve it or any successor company from its obligations to serve as they existed before the merger, especially where there is no expressed purpose in such legislation to relieve any of the corporations of existing obligations or to enlarge their privileges.

NUMEROUS proceedings have passed through the hands of the commissions concerning electric rates, proper charges to expense account, and valuation. These have been largely of a routine nature without any startling change in the theory of rate making during the past year. The promotional type of rate schedule has been extended—apparently with satisfaction both to the companies and to customers. A few points are worthy of special mention.

Much has been said in recent years

concerning the constitutional right of a customer or a prospective customer to demand service at reasonable rates. This right has been denied by a Federal circuit court, which held that a prospective customer's right to receive utility service at a reasonable, equitable, and nondiscriminatory rate is not a property right within the protection of a constitutional guarantee, but is dependent entirely upon the public service commission law of the state, and would not even exist in the absence of such a statute. The court in this particular case ruled that a prospective customer did not have the right to demand service under a rate schedule which should include a service charge, although the utility itself had been in favor of a service charge but had been prohibited by the state from including one in its tariff.<sup>24</sup>

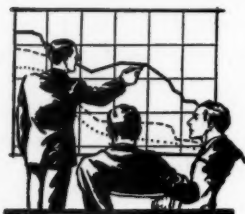
WITH the modern type of optional rate schedules, disputes occasionally occur as to the selection of the most advantageous schedule. In past years there have been decisions that an electric utility should use its best efforts to advise customers concerning the schedule under which the rates will be lowest, and in some cases a refund has been ordered where customers have not been placed upon the best schedule. Refunds in other cases have been denied when due diligence in publicity has been shown by the utility. During the past year this question has been passed upon in California and in West Virginia.

The California commission dismissed a complaint asking for a refund on account of excessive payment

<sup>23</sup> Broad River Power Co. v. South Carolina ex rel. Daniel, 281 U. S. 537, 74 L. ed. 1023, P.U.R.1930C, 234.

<sup>24</sup> U. S. Light & Heat Corp. v. Niagara Falls Gas & E. L. Co. 47 F. (2d) 567, P.U.R. 1931B, 127.

## Rate Cutting Is Authorized for Promotional Purposes



**"R**ATE cutting, which has been partially abolished under the public service commission laws, is still in effect in some communities. . . . The commissions have stated that the utility had a right to establish rates below the plane of just and reasonable rates for the purpose of promoting some policy of its own, provided that it did not imperil its ability to render adequate service."

for current where there was no proof that the utility had failed to apply correctly its schedules or follow its rule requiring it to call the attention of the consumer to lower schedules.<sup>25</sup>

In another decision by the California commission, involving gas rates rather than electric rates but upon the same theory, it was held that the failure of the utility to comply with its rule that a consumer's attention should be called at the time of application for service, to the different schedules as well as to schedules adopted subsequently, when affirmatively shown to result in depriving the consumer of rates he could have had, and would have used, might well be the basis for a reparation award.<sup>26</sup>

The West Virginia commission required an electric utility which was revising its rates so as to extend free optional forms to residential and domestic consumers to give notice of such rates by apt printed circulars, and to exercise due diligence in bill-

ing each customer under the schedule and option best adapted to the service required by him.<sup>27</sup>

The well-settled rule that an electric utility should have control over the service installations to the extent necessary to insure safe operations has been generally upheld. In Alabama the supreme court decided that a rule of an electric utility which required a certain type of switch on electrical installations at premises served by it was reasonable in the interest of safety and prevention of fire hazards. This was true notwithstanding the fact that other types not approved by the utility had been approved by fire underwriters.<sup>28</sup> In this same case the court sustained the utility in refusing to render service to premises where the utility's rules had not been complied with.

This question of refusing service in order to enforce rules has come up in other cases. For example, in Missouri, it was held that the commission had jurisdiction to determine

<sup>25</sup> Gladding, McBean & Co. v. Pacific Gas & E. Co. (Cal.) P.U.R.1930D, 115.

<sup>26</sup> Vernon v. Southern California Gas Co. (Cal. 1929) P.U.R.1930C, 385. See also Technical Glass Co. v. Southern California Gas Co. (Cal.) P.U.R.1931B, 447.

<sup>27</sup> Re Wheeling Electric Co. (W. Va.) P.U.R.1930C, 417.

<sup>28</sup> Wiegand v. Alabama Power Co. 220 Ala. 620, P.U.R.1930C, 126.

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whether or not an electric utility was justified in discontinuing service to premises where it was claimed there had been an unlawful diversion of current.<sup>29</sup>

The commission approved the action of the utility in refusing service where meter readings showed that current had been diverted even though no device for diverting the current was found on the premises.

The same commission, however, in another case held that it had no power to determine what sum a patron should be required to pay for diverted current.<sup>30</sup>

In this instance the utility was required to restore discontinued service upon the agreement of the consumer to install a standard lock box at his own expense as well as an agreement to defray the cost of disconnection and reconnection and just compensation for the current diverted.

The commission was of the opinion that there should be some definite provision made by a public utility for restoration of service to a patron after discontinuance because of unlawful diversion of current, and that in the absence of such definite pro-

vision the utility should not refuse to restore service on terms that are just and fair.

The same commission, in considering another complaint, upheld the electric utility in refusing to restore service where application for new service was made by the wife of a customer who had been disconnected upon the discovery that current had been diverted past the meter by a U-jumper. The commission believed that service should be refused until the occupants of the house shall pay for the disconnection and reconnection of the service, installation of a lock-box and meter, and an agreement to pay a reasonable sum for the current diverted.<sup>31</sup>

THESE few comments on the progress of regulation during the past year may serve as beacon lights along the road of regulation, but they cover only a fraction of the output of our regulatory commissions. The approval of security issues, adjustments of service complaints, action on new tariffs and regulations, scrutiny of proposed mergers and consolidations—all these have kept our state commissions constantly busy in the public interest.

<sup>29</sup> *Crowe v. Union Electric Light & P. Co.* (Mo.) P.U.R.1930C, 375.

<sup>30</sup> *Collins v. Union Electric Light & P. Co.* (Mo.) P.U.R.1930D, 446.

<sup>31</sup> *Warner v. Union Electric Light & P. Co.* (Mo.) P.U.R.1930E, 359.

### The Personal Experience of a Conservative Who Became Converted into a Liberal

IN a near number of PUBLIC UTILITIES FORTNIGHTLY will appear the first of a series of two articles that are noteworthy because they reflect so typically the observations, opinions, and conclusions of two observant, well-educated men of diametrically opposed viewpoints—one brought up as a conservative and the other as a liberal. How these two men—PAUL Y. ANDERSON and AARON HARDY ULM—gradually switched their attitudes toward the subject of public utility ownership and operation constitutes an illuminating commentary on temperamental distinctions between the two schools of economic and political thought.

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# Remarkable Remarks

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*"There never was in the world two opinions alike."*

—MONTAIGNE

SAMUEL FERGUSON  
*President, Hartford Electric  
Light Company.*

"If the government took over the public utilities, the taxes would rise from 25 to 50 per cent."

O. O. McINTYRE  
*Newspaper columnist.*

"In big business when a high executive is made chairman of the board he is kicked upstairs."

MICHAEL SOPHRIN  
*Attorney for United Cab Company, Akron, Ohio.*

"The taxicab industry is looming rapidly as a public utility; the laws now on the books have fairly made it so."

HEYWOOD BROWN  
*Newspaper columnist.*

"In the last year and a half the oily villain from Wall Street has disappeared utterly from the American drama."

L. I. NEWMAN  
*Rabbi.*

"No one can witness the planlessness of our economic life without questioning our economic and political leadership."

JACK SHUTTLEWORTH  
*Editor of "Judge."*

"The railroad brotherhoods have refused to join with the bus drivers. About the only place they seem to get together is at the crossings."

THEODORE DREISER  
*Novelist.*

"A mere state commission can do almost nothing in regulating these great (utility) systems that extend through six, eight, or even fourteen states."

W. A. JONES  
*Late president, National Electric  
Light Association.*

"From the best information available it appears that we now serve some 6,000,000 domestic consumers at a loss, and that this loss is levied against other users of service."

GEORGE B. CORTELYOU  
*President, Consolidated Gas Company of New York.*

"Any company, utility or otherwise, which attempts to supply inferior service or merchandise will be well advised to avoid the use of advertising under any and all conditions."



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THEODORE DREISER  
*Novelist.*

"Utility valuations are not only based on 'useful' property, but on valuations grossly and plainly dishonestly exaggerated."

GEORGE B. CORTELYOU  
*President, Consolidated Gas Company of New York.*

"The need for public understanding of the utility business has grown to a point where it is at least equal in importance to the technical and economic problems which continue to confront us."

J. F. OWENS  
*President, Oklahoma Gas & Electric Company.*

"There may be a score of reasons for central station merchandising, but among them I do not find the primary motive to be the retail profit central stations might enjoy from the sale of equipment."

MARION L. RAMSAY  
*Newspaper correspondent.*

"Which is going to get on top and stay there, the public or the power industry? Have we raised up an authentic Aladdin's lamp, with a genie that is ever obedient, or a Frankenstein monster?"

FRANCIS RUFUS BELLAMY  
*Editor, "Outlook."*

"Merely to view the great growth and progress of our utilities as something sinister in itself is contrary to our philosophy. Simply to have built a profitable business is not yet a mark of dishonesty in this country."

CHESTER I. BARNARD  
*President, New Jersey Bell Telephone Company.*

"Business men can't long have good business, and investors can't count on the value of their savings, if telephone installers can't have a fair share of the industrial progress which their country helps to create"

W. C. MULLENDORE  
*Vice president, Southern California Edison Company.*

"Some of those who are insisting on a power issue are doing so not because they have any particular dislike for our industry but merely because they believe that baiting public service corporations is good political self-service."

MATTHEW S. SLOAN  
*President, New York Edison Company.*

"The power trust, as politicians now discuss it, is a myth; but government-owned utilities would be no myth; they would be a power trust under political operation rendering a kind of service easier to imagine than endure."

EDWIN GRUHL  
*Vice president, National Electric Light Association.*

"Those who promote the increasing propaganda in favor of government ownership . . . believe that there should be no profit; that profit is sinful and labor is not worthy of its hire; . . . and that we must eventually lapse into the Nirvana of communism."

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*Editorial from the  
"Whiteside Sentinel."*

"Before Senators begin to run power plants, mines, and factories, they ought to come a little nearer the point of 100 per cent efficiency in running the affairs of the Senate itself. Imagine stopping a power plant while one of the managing politicians engaged in a filibuster!"

CHARLES T. CATES, JR.  
*General counsel, Tennessee  
Public Service Company.*

"Privately owned utilities keep their accounts in such a way as to conform to a standard classification. This is generally a requirement of the state regulatory commissions. The municipal plants in the country have steadfastly refused to keep their accounts on this same basis."

MILTON R. STAHL  
*Chairman, Missouri Public  
Service Commission*

"Utility companies should take the mystery out of the utility business. The utilities should be very frank about transactions between themselves and affiliated companies, to dispel any thought that operating costs are being unjustly swelled to the detriment of consumers."

EDWARD F. FLYNN  
*Assistant counsel, Great Northern  
Railway.*

"If it is fair for Uncle Sam to compete with the job printer in the printing of envelopes and with the railways in the transportation of service, why is it not equally fair for the government to engage in any other form of business when requested by those who think money can be saved thereby?"

C. E. GROESBECK  
*President, Electric Bond & Share  
Company.*

"One of the most serious brakes upon returning prosperity, one of the many causes of our present situation, and one of the factors which must be considered in any general movement toward better things is the fear of further infiltration of governmental dictation into the life and labor of the American people."

ALBERT C. RITCHIE  
*Governor of Maryland.*

"If business would complain of too much government in business, then it should cease its own efforts to put government in business through excessive tariffs to the powerful and subsidies to the privileged few. It should stop looking to government to police it and subsidize it and to cure the ills of its own making."

JOHN F. GILCHRIST  
*Vice president, Commonwealth  
Edison Company.*

"The radicals, or those superficially educated, who do not understand the true situation, think or claim to think the holding company is, to use their term, 'milking' the operating company and getting a great deal more out of it than it should. The answer to that is that the operating companies in practically all of the states are working under a commission form of regulation."



## A Public Relations Counsel in Every Utility Employee

*How a former liability is being  
developed into a present asset*

WIDESPREAD public distrust of a utility corporation may often be traced to nothing more important than a few hard words between a disgruntled ratepayer and an insolent clerk over a bill of a few cents. Contrariwise, the secret of the popularity of a local utility company may often be found in nothing more tangible than amiable personal relations between customers and meter readers or telephone repairmen. A recent survey of the reasons for the notable variances in the esteem in which utility corporations are held has led to disclosures that have resulted in courses in employee-customer relations that are enrolling thousands of workers. This article tells what these courses are.

By CHARLES W. PERSON

“THERE ain’t no use you going down to see them about your bill,” said Mrs. O’Leary to Mrs. Jacobs. “They’ll lie out of it even if they did make a mistake. I was down last month to ask them why my bill was up a dollar and nine cents. Some snippy girl told me it was because I used more gas. I told her I didn’t, and she says the meter says I did and that’s all there was to it. My old man says they wouldn’t be so independent if they wasn’t a monopoly.”

Obviously, Mrs. O’Leary harbored no deep-seated affection for the gas company. Although her hostile attitude arose from an unpleasant experience with a single contact employee, that, (to Mrs. O’Leary’s way of thinking), was sufficient justification

for condemning the company and all associated with it.

THERE was a day not so long ago when the peppy and articulate type of irate customer represented by Mrs. O’Leary would not have caused a ripple on the surface of the managerial conscience of the gas business. She would have been classed as one of those irreconcilables who think that all gas men have cloven hoofs and forked tails, and ignored thereafter. In the scramble for franchises, the battling for rights of way, and the terrific responsibility of providing the physical facilities of service, the cantankerous O’Learys and other malcontents did not register in the maze of slide rules, blueprints, specifica-

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tions, and other *impedimenta* of the technician. In those days engineering formulæ totally eclipsed the human aspects of service.

Evidence is not lacking that the pendulum has now swung the other way. Today many presidents of gas companies who could not be prevailed upon to sample some pre-war stuff when they are comfortably bedded for the night, will, at the tingle of the telephone, leap to the mat and carry on animated conversations with dissatisfied customers, going to limits undreamed of as late as ten years ago to placate them and cultivate their goodwill. What has happened to bring about this reversal of attitude?

**E**XPERIENCE has proved that personal grievances carried in the hearts of customers have a very human but unfortunate tendency of advertising themselves far and wide. A few aggrieved and disgruntled customers may in time create sentiment, and sentiment crystallizes rapidly into conviction—and thereafter and until such time as effective remedial measures are taken, there is merry old Ned all along the line.

With the better understanding of employee-customer relations came the enlightened realization that utility service is not being measured today by the efficient whirl and rhythmic hum of machinery—not by the masses. It is being measured, rather, by the courteous, thoughtful, and kindly consideration demonstrated by the rank and file of men and women employees in their daily contacts with the public. This is not to underestimate the vital importance of the physical facilities of service; they are bas-

ic. Of late, however, more emphasis has been placed on the other side, the side which says that at the root of the public's appraisal of the utility business one thing looms larger than all else, and that one thing is and will continue to be the kind of folks who are in the utility business.

**T**HE acceptance of this viewpoint in utility executive circles was accelerated by discussions in association meetings and conferences and by a series of thought-provoking addresses made by representatives of both the utilities and regulatory bodies. In 1923, Philip H. Gadsden, vice president of the United Gas Improvement Company, and Hon. Henry G. Wells, a member of the Massachusetts commission, struck at the very heart of things. In a talk to the executives of the gas industry that year, Mr. Gadsden drove home his plea for improved customer relations in these words:

"In the eyes of our customers, who represents the gas company? Not you and I. They do not know us. The gas man in any neighborhood is the meter reader, or the fitter, or the trouble man, or the girl at the switchboard whose snappy replies can do us more harm than we can undo in a year; or the man or woman in the cashier's cage who takes the money—they are the gas company."

Commissioner Wells, speaking on public relations from the standpoint of the employee, observed:

"Public relations mean personal relations. A company may often be judged by its lowliest employee. That is the difficult feature of your work, to train each and every employee who comes in contact with the public to be patient, courteous, and tactful.

"Company officials with the best intentions in the world have seen failure in securing public confidence because of the attitude of one or two subordinates of the company who failed to realize their responsibility in dealing with the public."

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Later in his address he spoke of satisfactory customer contacts from the viewpoint of the regulatory body, and pointed out that:

"A commission is in existence to regulate and not to manage. It is evident that a company management which allows a state department to take the place of an adequate organization of its own is encouraging the public to seek elsewhere than in the company's management a solution of its service problems.

"We believe the ideal situation to be that one wherein the relationship between the public and the company is such that there is mutual trust and mutual coöperation, so that our bodies will be appealed to rarely, if ever, to straighten out service difficulties."

**T**HEREAFTER, the public performance of gas company employees was subjected to closer scrutiny than ever. At first it was thought that the formulation of new rules and regulations on employee behavior would go far in bringing about an improved condition. They were compiled and applied but they did not work—not the way it was expected they would. The next move was to resort to exhortation and preaching and the familiar run of paternalistic literature, but like rules and regulations they, too, gradually fell into disuse. It was found that employees, in common with all human beings equipped with sound mental equipment, think for themselves. Something else was needed—some means of capturing the employee's interest and centering it on himself and his customer contact

methods in a way that would instill those niceties in performance that go to make a person an enjoyable individual to do business with.

The group conference idea then gained support. Through this method, which is merely the application of round-table discussion to job service or performance problems, groups of employees with common interests and common rankings center their attention on the customer and discuss right and wrong contact practices. The conference method succeeded in making the employee think; first of the company and the customer, and then of himself and his capacity for making friends. Sets of rules soon began to look like a primer textbook in comparison with the completeness of the performance standards produced by employees as a result of these group conferences.

The plan worked so well and resulted in such noticeable improvement in customer relations, with a corresponding decrease in complaints, that it was adopted as a regular part of the employee educational work of several companies.

**A**BOUT this time a certain organization specializing in "measurement of attitude" made a survey of some large Illinois utility companies for the purpose of determining the factors underlying public attitude to-



**T**"*THE discourteous information clerk, the reckless fitter, the cocksure salesman, the careless meter reader, the self-important elevator operator—all were exposed to view by the survey. And in contrast to these, the efficient, courteous, thoughtful, and considerate employee was observed in the act of making friends for his company.*"

## PUBLIC UTILITIES FORTNIGHTLY

ward the utility business. Calls were made on 250,000 customers of utility companies. Nothing was left to guesswork. The housewife or the man of the house was asked for his or her personal opinion of the quality of utility service rendered, and in the course of the interviews other information was obtained of great moment to the executives of the companies concerned.

Finally, when the data had been collected and segregated, some surprising findings were revealed. Perhaps the most valuable discovery was that employee-customer contacts were more important than any other factor in creating good-will or ill-will.

With this knowledge in hand, orders were issued to have the investigation proceed further and include observations of actual employee contacts to ascertain what elements of employee performance were most effective in promoting customer good-will, and what ones, on the other hand, were the most irritating to customers.

**I**NTEREST in the customer was found to rank first in favorable influence. Lack of interest, that is, indifference to the customer, was most irritating. Lack of information requested, coupled with no effort to get that information, produced a decidedly unfavorable impression. Lack of politeness caused much antagonism. Unpleasant speech and language bred resentment. Personal appearance was much more important in creating good or bad impressions than had been thought. And so it went.

These points were then subjected to further analysis, and a program of

training in customer contacts was set up in a number of companies. The conference groups had no difficulty discussing pertinent subjects. The survey revealed hundreds of actual cases of wrong and correct practices. The hard-boiled type of collector was shown in the very act of creating enmity. The discourteous information clerk, the reckless fitter, the cocksure salesman, the careless meter reader, the self-important elevator operator—all were exposed to view. And in contrast to these, the efficient, courteous, thoughtful, and considerate employee was observed in the act of making friends for his company. There was nothing of imagination or fancy anywhere in the picture. It was based on facts obtained at the source, the result of actual observations and interviews.

**N**EWs of this highly successful survey in Illinois and the practical application of the findings to employee study, soon filtered through the industry and caused widespread interest. Why not inaugurate a course in employee-customer relations based on a survey of conditions existing generally throughout the industry and have the American Gas Association sponsor it? This was the question put up to the Association's Committee on Education of Gas Company Employees.

Action was not long delayed. The committee called upon J. David Houser of New York, whose organization was responsible for making the survey, and charged them with collecting the necessary facts and developing what is today known as the American Gas Association Course



## A State Commissioner's Estimate of the Utilities' Duty to Train Employees for Customer Contacts



**"P**UBLIC relations mean personal relations. A company may often be judged by its lowliest employee. That is the difficult feature of your work, to train each and every employee who comes in contact with the public to be patient, courteous, and tactful. . . . We believe the ideal situation to be that one where in the relationship between the public and the company is such that there is mutual trust and mutual coöperation, so that our bodies will be appealed to rarely, if ever, to straighten out service difficulties."

—HENRY G. WELLS  
DEPARTMENT OF PUBLIC WORKS, MASSACHUSETTS

in Employee - Customer Relations.

The course was introduced October 1, 1930. At the present time more than 5,000 men and women employees of gas and combination gas and electric companies are enrolled. It has incited an interest believed to be unparalleled in the field of personnel training. News of its success has traveled not only to branches of the public service other than gas, but to chain store, banking, steel, soap, automobile, and department store organizations.

In a nutshell, the purpose of the program is to improve the level of employee-customer relations by getting employees to think—by having them analyze customer contacts and plan a future procedure so that correct methods of dealing with customers become habitual.

**T**HE course is conducted by home study and by company group meetings attended by contact employ-

ees only. The prepared material consists of six separate sections or units, and a manual of instruction for the group leader, who is an employee, not an executive. Every person enrolled receives the six units, one every four weeks. The units treat entirely of fundamental principles of dealing with the public, with the emphasis consistently placed on the what-to-do problem in practical situations. They are written in everyday language, are full of lively dialogue, and are illustrated.

It is in the conference groups, however, that the course strikingly reveals its ability to arouse and hold the employee's interest. In these groups every employee (there are not more than twenty-five to a group) has a voice. Individual self-expression is encouraged. Right and wrong contact methods are brought out into the open and subjected to critical analysis. The employees thus decide for themselves what is and what is

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not the correct procedure in any given contact situation.

Is it possible to get results from such a training program for utility employees?

"Heretofore," says an employee, "when an order came to contact a chronic kicker a man felt lucky when some other fellow was assigned to the job. Now the men ask for these hard ones."

"This is the first time," writes another, "that we fellows have met together to discuss our contact problems. The executives always get a lot of good out of their meetings. They seldom miss a convention. Now we are showing them that it is doing us just as much good to get together and exchange our viewpoints and experiences."

And this, from a group leader:

"Our first meeting was too short, so one of the members suggested meeting again that evening. Twenty-one men came in at 5:15 and stayed until 6:30. It was so interesting we decided to have one of these extra meetings each month. At our second

meeting forty-one men reported and stayed until 7:30 o'clock in the evening."

Approval from executives runs all the way from "this is the first activity that has brought all of our employees together" to "we have noticed at least a fifty per cent improvement in customer contacts."

Summed up, however, it could not be better expressed than this endorsement from Baltimore:

"This course has crystallized employee thinking to an extent never before reached."

"Public relations," says Harry Reid, president of the National Electric Power Company, "is both an inside and an outside factor. Our various groups of critics can build ill-will from the outside while our employees can build ill-will from the inside. We can so inform our employees that they will build good-will from the inside and at the same time offset the ill-will which our critics build from the outside. In my judgment, this is the chief answer to our public relations problem."

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### Why the Utility Corporations Head the "Sucker List" for Advertising Favors

"**T**HERE is, apparently, a widespread feeling that public utilities are fair game for folk who flourish by filching the advertising exchequer: sad-eyed men and women appearing in behalf of charities; peddlers of 'phony' schemes; crusaders for the public good; moral uplifters; racketeers for shows, conventions, fairs, exhibits, athletic tournaments, celebrations, entertainments, and an unending host of others whose principal purpose is plucking the public utility purse through something represented as being possessed of advertising value. . . .

"Nine times out of ten, the utility is first on such sucker lists. Their notorious lack of defense measures is inviting. Their difficulties in disposing of such problems are thus intensified."

—H. LEE JONES

# When the Lightning Struck

No. 11: HEROES OF THE ARMY OF INDUSTRY

*How the quick wit and prompt action of a utility employee led to the extension of first-aid training throughout a community and to the saving of human life.*

By ARMSTRONG PERRY

**I**N these days of high-powered lobbies almost anything may happen in the nature of a publicity stunt. But when lightning strikes a life guard just as a first-aid instructor of a public utility corporation drives up, there ought to be a congressional investigation.

This coincidence actually happened. The first-aid man in the case was a Red Cross volunteer worker, too, and the Red Cross has its national headquarters near the Capitol and the Weather Bureau in Washington. The whole occurrence looks like a put-up job, except that the lightning came from the usual source and investigation fails to reveal that any public utility executive was on his knees at the time praying that his company's wires should be hit by lightning. That last fact, however, gives the corporation a claim to reasonable doubt.

**C.** A. BUNDICK, district sales supervisor of the Chesapeake and Potomac Telephone Company of West Virginia is the man who co-operated with the lightning in this sensational episode. A life guard at Shawnee Lake was felled by the bolt from the sky but he, at least, is en-

tirely free from suspicion of collusion.

Bundick was out in his car showing his wife the scenery which, in this part of West Virginia, is beautiful. One of the sudden thunder showers that are so common in the mountains came up as they were approaching the pavilion at Shawnee Lake. Bundick saw that it was going to be a bad storm, so he stepped on the gas, hastened to the pavilion, and sent Mrs. Bundick in under the sheltering roof. Before he could park the car and join her, there was a flash and a crash.

The lightning had struck somewhere in the wires among the colored lights with which the lake front of the pavilion was decorated, or on the wire fence along the water's edge.

Several persons who were sitting in chairs with their feet on the wire fence felt the shock. Then someone discovered that the life guard, who was there to protect and help swimmers, had fallen unconscious on the platform overhanging the lake. His feet were in the water.

The crowd in the pavilion did not know what to do. Crowds never do, which accounts for the number of deaths from the application of incorrect treatment or

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the neglect of proper methods. Then in walked Bundick.

**B**UNDICK knew first-aid methods and was an instructor in his company, which had provided instruction for its employees for nearly ten years. With the help of some of the bystanders he carried the life guard into the dressing room. He observed that the victim was not breathing and that his heart action was too faint to be detected. He applied prone pressure to start artificial respiration and called for towels to be wrung out of hot water. Willing volunteers brought the towels, which were applied to the armpits and in the crotch to warm the arteries and help circulation. The life guard was wearing a bathing suit at the time so there was no need to spend time in removing clothing.

The extremely weak condition of the man, shown by the absence of any indication of heart action, led Bundick to take every precaution and apply his first-aid treatment with the utmost care and thoroughness. He sent for a doctor. He kept the volunteers busy wringing towels out of hot water and applying them to the patient. He guarded against the tendency to apply prone pressure too rapidly and worked at the normal rate of about fifteen exhalations and inhalations per minute.

In the course of one hour and twenty minutes natural breathing began and the victim's pulse could be felt. Three times he showed signs of reviving only to relapse into unconsciousness again. By the time the doctor arrived, however, the crisis had passed. A stimulant was needed and the doctor administered a hypo-

dermic injection. In a short time the patient was ready to be taken to a hospital. The severity of the shock made it necessary for him to remain there two days.

There is no doubt that Bundick's prompt and efficient first-aid treatment saved the life guard's life.

**T**HIS rescue helped to arouse interest in the study of accident prevention and first aid. Bundick was awarded the Vail Medal and the medal of the National Safety Council. The fact that the Chesapeake and Potomac Telephone Company of West Virginia was developing men who could not only save lives but also teach others to do so became generally known and it brought well-deserved increments of good will to the company.

**M**ONTHS later, Bundick's rescue was remembered in an emergency. The daughter of an official of another public utility corporation fell into the water and was submerged for forty-five minutes. The police were the first representatives of organized safety on the scene. They brought a machine for automatically producing artificial respiration. This failed to bring the girl back to life and there seemed to be no hope—until someone suggested Bundick. There was a feeling that if anyone could accomplish the impossible he was the man.

Many a man would have pronounced the case hopeless, as it proved to be, rather than to assume the responsibility for inevitable failure, but Bundick knew that there would be consolation for the parents and friends in the fact that efforts to revive the girl were continued until it

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could be said with conviction that everything had been done that could be done.

He asked the sympathizing crowd that was looking on for hot water bottles and was astonished at the number brought from homes in the neighborhood within a few moments. Down on his knees he applied prone pressure until the sand and gravel ground into his flesh and made scars that are still with him. He was undoubtedly foredoomed to failure, for cases of resuscitation after even thirty minutes' submersion occur very rarely, but he was willing, as all good first-aid men are, to work for the one chance in a million if necessary.

FOR some time Mr. Bundick has been helping to organize the first-aid work of the public utility corporations in the Charleston district on a coöperative basis. These corporations all appreciate the value of it and the problem is merely one of coördination and extension.

The effect of the first-aid work of the Appalachian Electric Power Com-

pany in the Charleston district was revealed when a representative of PUBLIC UTILITIES FORTNIGHTLY asked Mr. A. W. Brendel and Mr. R. G. Skinner to name an employee of the company who was worthy to become the subject of one of these hero tales. They admitted shamelessly "the company had no heroes." It did, however, have a chart that explained why no deeds of daring had been lately performed by its men.

The chart showed that from January 1 to October 1, 1930, there had been but twenty-three accidents through which employees had lost time, as against fifty-three in a typical year before systematic instruction in accident prevention and first aid was given to their workmen. Not satisfied with this reduction, they are trying hard to eliminate the chart as well as the heroes, by preventing the accidents on which the chart is based. The only life saver they could think of, among the public utility corporations of the district, was Bundick, who saved the life of the life guard who was so nearly killed by lightning.

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### The Parking Problem in 1660 When Charles II Was King

**"W**HEREAS the excessive number of hackney coaches in the city of London are found to be a common nuisance, the streets and highways being thereby made impassable and dangerous.

*"We command that no person or persons permit or suffer the said coaches to stand or remain in any of the streets.*

*"Given at our court at Whitehall the eighteenth day of October, 1660.*

**"GOD SAVE THE KING."**

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## As Seen from the Side-lines

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WOODROW Wilson issued a list of fourteen points which threw the liberty-loving people of the world into an hysteria of approbation. So we were told.

\* \* \*  
MR. WILSON took himself on a ride to Paris, and the fourteen points were dulled, twisted, bent, and generally rendered as impotent as a two-edged sword on a shooting range.

\* \* \*  
FOURTEEN points, or fifteen for that matter, giving their author the benefit of a gratuitous donation, rarely get far in any abstruse subject. The pocket-book has to be affected. Without the stamp and tea taxes, the revolution of 1775 might have been another of those things. The gentleman who said, "We must hang together or we will all hang separately," would have gone down into history as an arithmetician, not as a patriotic sloganist.

\* \* \*  
THERE comes to us from New England a list of ten points. We will publish them here, after affording you the prediction that they will be the source of a more continuous and permanent fuss than was engendered from the White House typewriter.

\* \* \*  
FIRST let it be chronicled in order that a proper base may be laid that the New Hampshire Gas and Electric Company and the Derry Electric Company are well known public utility enterprises, supplying their services to portions of the Granite state that are relatively congested with population.

\* \* \*  
THEY are units of the Associated Gas and Electric System, headquartered in that, to the average New Hampshire person, far away and reprehensible Wall Street of New York.

\* \* \*  
It may be that Associated has not

taken them over bag and baggage, or part and parcel for that matter, but the public service commission of New Hampshire found that from a practical standpoint Associated controls and operates and dominates them, no less.

\* \* \*  
ASSOCIATED, it may be recalled, recently drew the ire of the commission for its refusal to yield its books, documents, and papers to the meticulous and detailed extent the commission believed to be necessary. Now the commission follows through with an extraordinary order for the two subordinate corporations to show cause not later than September 10th why a new series of mandates should not be put into effect against them.

\* \* \*  
THESE mandates are listed by the definitive Boston News Bureau as a group of ten. We publish *verbatim* the ten points as extracted from the commission's order by the bureau:—

\* \* \*  
1: NEITHER company hereafter to borrow money by open account method except to such extent and upon such terms as may be approved by the commission.

\* \* \*  
2: NEITHER company hereafter to pay interest on any sums owed under open accounts until the commission, after a hearing, determines what terms are consistent with public good.

\* \* \*  
3: NEITHER company to pay any sums to J. G. White Management Corporation under contracts of June 1, 1929, unless and until commission, upon proper petition, finds them to be for public good.

\* \* \*  
4: BOTH companies to discontinue the present practice of selling appliances for and on behalf of Associated Appliance Corporation.



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5: NEW Hampshire Gas and Electric shall not engage in business in territory served by Derry Electric until authorized by the commission.

6: NEW Hampshire Gas and Electric to strike from its books all entries evidencing financial or other obligations made in connection with purported acquisition by it of the Derry Electric Company.

7: NEW Hampshire Gas and Electric shall pay no sums as principal or interest on account of purported Derry purchase unless and until acquisition is approved by the commission.

8: BOTH companies to discontinue the practice of permitting employees to sell Associated Gas and Electric Company stock during hours engaged in local utility business.

9: BOTH companies to maintain original books and records relating to all details of management and operation in New Hampshire until upon proper petition commission shall order otherwise.

10: NEITHER company to contribute any sums for maintenance of office staff maintained in association with foreign trusts or corporations outside state except as approved by the commission.

Now, the folks who read this surprising mandate, (or ten of them), are well fitted by the training peculiar to their professions, to decide for themselves just what this is all about.

To the superficial chronicler it looks to be about as sweeping a manifesto as was ever ordered by any commission to rule the relationships between local power companies and their affiliated and overlord management trusts and holding corporations.

It is within our sphere to record some historical and political observations.

THE Massachusetts commission achieved some nation-wide distinction by its refusal to take the United States

Supreme Court seriously and to declare that, Washington to the contrary notwithstanding, the local utilities would be allowed to pay dividends solely upon the actual cash prudently invested in the property.

THE New Hampshire commission attracted notice to itself when it went into the courts and sought to compel Associated to disgorge all the facts about its financial structure that the commission desired to know.

WE said at the time that when public utilities get to monkeying with these Yankee commissions they are putting themselves much in the position of the monkey and the buzz saw. Somebody is going to lose a piece of its tail, if not all of it.

SINCE that was written, the New Hampshire legislature adopted a law giving its commission the fullest power of investigation but assessing the cost of such probes upon the utilities themselves. A thin voice is heard to say that the consumers eventually pay, anyway. Okeh, but two deductions of importance are possible: (1) The state got up on its hind legs and showed its power; (2) public officials are more likely to investigate thoroughly and painstakingly and expensively when the cost of investigation is coming out of somebody else's pocket than when it is being charged against its own budget.

DECISIONS like these may prove to be sources of anger and irritation to the companies. On the other hand, they increase popular respect for the public servants. They give the people a notion they are getting a square deal. They delay the prospect of public ownership.

WHEN one commission gets going hell-bent for service it creates a wake. These manifestations of indomitable independence may spread.

*John T. Lambert*

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# What Others Think

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## Who Will Regulate the Interstate Transmission of Power?

A MAP of the high tension lines in the United States looks so much like a railroad map of the United States that even a well-informed citizen might at first glance mistake the one for the other. For this reason such citizens are likely to remark, "since the Federal government regulates interstate railroads, why should it not also regulate interstate power transmission?"

But Judge Stephen Davis, speaking at the National Electric Light Association convention of 1931 on "Interstate Power Rates," has pointed out that the similarity between power lines and rail lines is one of appearance only.

RAILROADS are carriers. They carry other people's property. About 85 per cent of their business is interstate. One rail shipment may cross over a dozen state lines.

Power utilities, on the other hand, are not carriers. They do not carry current for others; they transmit only their own power to their own customers, just as farmers or merchants transport their goods to market. Less than 15 per cent of electricity generated crosses state lines; the balance is consumed in the state where it is generated. Even when moving in interstate commerce electricity rarely crosses more than a single state line.

Judge Davis further points out that the Federal Interstate Commerce Commission with 85 per cent interstate authority over railroads had little trouble absorbing the remaining 15 per cent intrastate authority on the theory that the tail should follow the hide. But this, he adds, could not be a precedent for the Federal government to absorb 85 per cent intrastate authority over power

utilities, for that would be making the tail wiggle the dog.

The judge confined his remarks to regulation of rates of interstate power companies and expressly disavowed any attempt to apply his reasoning to the jurisdiction over security issues, contracts of power companies, or holding companies. Whereupon, he launched into a discussion of the leading supreme court decisions on interstate rate regulation and summarized his own conclusions as follows:

"FIRST: That sales and purchases across state lines between two utilities constitute interstate commerce and that the price which they have agreed upon is not subject to change by state authority.

"SECOND: That sales by a utility to the public do not constitute interstate commerce and that all such sales and the rates made in connection with them are subject to regulation by the states."

"THIRD: That under no circumstances may the Federal government fix, control, or regulate the rate charged for electricity by any utility to the retail customers, that being exclusively within state control."

JUDGE Davis showed in the course of this discussion that Public Utilities Commission *v. Attleboro Steam & Electric Co.* (273 U. S. 83, P.U.R.1927B, 348) was the only Supreme Court decision of direct value in drawing the limits of Federal jurisdiction. In that case, a Rhode Island utility, generating current in its own state, sold it under a contract at an agreed price to a Massachusetts distributing utility, which took delivery at the state line and retailed the current in Massachusetts. The Supreme Court held that an attempt of the Rhode Island commission to increase the wholesale contract price was an unconstitutional interference with

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interstate commerce. Judge Davis points out that rates to the public were not involved in this case, only a wholesale rate between two companies; and he argues from this that the sphere from which state authority is excluded is, as a practical matter, very small, amounting to less than 6 per cent of the amount of current generated. He says:

"Even if regulation could cut this inter-utility rate in half, the saving to the householder would be negligible. If the purpose of regulation is to lower rates, as it is in the public mind, this particular price, at the bottom of the rate schedule, is the worst possible place at which to start. The assumption of such a regulatory function by the Federal government would be of no advantage to the public, and neither helpful nor harmful to the utilities."

Judge Davis goes on to prove that the interstate character of the movement of electricity stops, in legal theory, with the delivery by the transmitting agency of the power to the distribution system, even though as a practical matter, the trip from generator brush to the customer's radio receiving set may take but an instant. In support of this he cites, *Public Utilities Commission v. Landon* (249 U. S. 236, P.U.R.1919C, 834) and *State ex rel. Barrett v. Kansas Nat. Gas Co.* (265 U. S. 298, P.U.R. 1924E, 78), both natural gas pipe line cases.

The judge concedes that the highest

court did, in *Pennsylvania Gas Co. v. Public Service Commission* (252 U. S. 23, P.U.R.1920E, 18), regard the total movement of gas by a utility, which was importing a supply from its own wells in Pennsylvania to be used in its own distributing system in New York, as a continuous interstate movement, subject to state regulation only in the absence of Federal regulation. But even the force of this decision, he adds, has been overshadowed by the recent *East Ohio Gas Co. v. Tax Commission*, decided May 18, 1931, in which the interstate movement of natural gas imported by an Ohio Company from West Virginia fields was held to terminate upon the mixing of the high pressured transmitted supply with locally mined supply for general distribution. This decision, he believes, marks a return by the Supreme Court to its original views laid down in the *Landon Case*, *supra*.

JUDGE Davis' reasoning seems to be irrefutable as long as we assume that the Supreme Court will treat the transportation of electricity in the same manner as it treated the transportation of natural gas—a presumption which, while highly probable, is not entirely conclusive.

—F. X. W.

INTERSTATE POWER RATES. By Stephen Davis.  
Address at N.E.L.A. Convention, Atlantic City, N. J., June, 1931.

## New Ammunition for the Pro and Anti Government Ownership Propagandists

FOR some months the Utilities Publication Company, of Chicago, has been publishing a series of reports on the operations of various municipal utilities in the United States and Canada. These copyrighted articles invariably arrive at the conclusion that municipal operations are not as profitable as they are reputed to be, and detailed data purport to show that there has been considerable window dressing by city coun-

cils in the periodical financial statements of many municipal plants.

The alleged purpose of this research is to meet erroneous statements regarding municipal ownership, to equip private utility officials with information, and to educate subordinate employees; the editors claim that the work is authentic and that it constitutes excellent material for evidence and exhibits in regulatory proceedings, and they con-

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Washington (D. C.) Daily News

### "ADDED INFORMATION"

clude that the reports may be of use to utilities for the dissemination of information favorable to private operation.

The reports constitute obvious and frank propaganda, but that fact should not deter all who would be fully informed on the private *versus* public ownership issue from obtaining them. The word "propaganda" was a handy term until the World War gave it an insidious connotation; one hesitates to use it except as applied to the utterances of an opponent. These reports (about forty have been issued so far) repre-

sent a considerable amount of research; whether the data are reliable will have to be tested by time and the attacks of opponents.

**T**HE editors overstate the authority of the work, however, when they suggest that the material contained in the reports could be used as "evidence" in regulatory proceedings. No wide-awake court or commission would be likely to admit such evidence, and small weight would be given to data from such a plainly biased derivation. The

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reports have real value, however, to those engaged in regulatory litigation, as they suggest lines of thought which may be rechecked from disinterested sources.

Report Number 36, published in November, 1930, seems to be about the best of the lot; it covers the Hydro Electric Power System of Ontario. It goes into considerable detail over such matters as rates to domestic customers in the numerous municipalities of Ontario; a summary of the section headings will indicate the scope of the work. First, there is a preliminary statement; "Why Domestic Rates Are Low"; then there appears in the following order: History of the Ontario Hydro; Promise and Performance; Natural Advantages; Rates (compared with New York); Rural Subsidies; Rate Tables; Economic Effects; Financial Results; and an appendix containing a summary of the Ontario Hydro commission law and numerous annual statements of the commission for various classes of service.

Report Number 8 on the much discussed power plant at South River, N. J., published in May, 1930, is short but startling.

**H**OWELL Wright, director of public utilities in Cleveland under the William R. Hopkins regime, is the chief contributor to Report Number 37 issued last February. He undertakes to dis-

credit the Cleveland Municipal Light plan. This particular issue came under the eye of Carl Thompson, editor of *Public Ownership*, who invited Engineer Roy Husselman to refute Mr. Wright. He went to work in earnest on the Wright report and Mr. Thompson dedicated most of the June issue of *Public Ownership* to the Husselman article, "Cleveland Confounds Its Enemies."

Space does not permit here the reprinting of any of the arguments advanced by either Mr. Wright or Mr. Husselman; suffice to say, that between the two articles there is a head-on collision, and that somewhere between the statements of the two champions there lies the truth about the Cleveland power plant. It is to be hoped that Editor Thompson will continue to follow up the Utilities Publication series of reports with opposing articles in *Public Ownership*; when all the ground has been thus covered by both sides, the resulting articles will make the most complete detailed library on the municipal ownership controversy in this country yet assembled.

—J. C. C.

REPORTS ON MUNICIPALLY OWNED UTILITY PROPERTIES. 1930-1931. Utilities Publication Company. 35 East Wacker Drive, Chicago, Ill.

CLEVELAND CONFOUNDS ITS ENEMIES. By R. Husselman. *Public Ownership*. June, 1931.

## How the French Handle Their Street Railway Problems Through "Mixed Companies"

**F**RANCE has adopted an interesting method of private operation of street railway systems with close financial coöperation on the part of the municipal authorities. This *quasi* partnership relation is rare in the United States. Dr. W. E. Mosher believes that France will have to take some definite steps within the next ten or fifteen years towards a regulatory operating railway

policy, in view of the large number of franchises that will expire during that time. Dr. Mosher describes the present French methods as follows:

"In France a not uncommon method is that of the *regie intéressée*, i.e., governmental participation. In its simplest form it results in government ownership of the lines and private equipment and operation with the possible provision that the city guarantee a minimum profit to the com-



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pany with or without a provision for sharing in surpluses. Under the terms of the lease regular payments must be made to the city to cover interest and amortization charges.

"Another form of coöperation between public and private interests appears in the 'mixed company.'

"This form of organization was expedited by the financial stringency during and following the war when municipalities, particularly those in Germany and France, found themselves in credit difficulties. The mixed company is defined as 'any economic undertaking under general law in which the public and private organisms jointly share in the capital and exercise the administration.' The purpose of this setup is to secure needed capital and to ensure the application of commercial principles and enterprise, on the one hand, and to reduce, if not to eliminate, the inefficiencies that may accompany bureaucratic and political administration as well as the exploitative tendencies of bankers and entrepreneurs, on the other. It has been hailed by some as a happy solution of the problems of utility control while others judge it to be but a transitory makeshift due to the unfavorable conditions on the credit market. This latter position finds support in the fact that this type of organization has been more generally adopted in Germany than elsewhere, in which country financial stringency has been particularly distressing. According to a recent report before the International

Union of Local Authorities (July 1930, Antwerp), there were in 1920, 377 instances of such companies in 159 German towns and cities. These covered all types of enterprise. The data from Prussia show that fifty-nine or about one fifth of the street railway companies are organized as mixed undertakings.

"The mixed company is, however, by no means a recent development as instances are to be found in England, Belgium, Switzerland, and Germany from the end of the nineteenth century to the present date. In recent years France, Holland, Hungary, Finland, Greece, and Czechoslovakia have on occasion turned to this type of organization."

Dr. Mosher lists the following advantages to be derived from the "mixed company" method of transit operation: Utilization of the best economic and industrial experience; independence of legal and administrative restrictions; progressiveness and flexibility in dealing with new problems and conditions; increased sense of responsibility on the personnel; coöperation with other systems in territorial extensions.

—F. X. W.

STREET RAILWAYS IN FOREIGN CITIES. By W. E. Mosher. *National Municipal Review*. April, 1931.

## The Cost of Operating a Utility Corporation— As Viewed by a City Official

ON May 13, 1931, Mr. Joseph E. Berman, chairman of a committee of the city council of Atlanta, Georgia, appeared before the Georgia Public Service Commission for the ostensible purpose of protesting against a proposed upward revision of rates for natural gas service in the city of Atlanta by the Atlanta Gas Light Company. During his testimony Mr. Berman was cross-examined on the subject of a comparison in the matter of efficient operation and economical management between the city-owned Atlanta waterworks and the privately owned Atlanta Gas Light Company. He stated:

"I think, so far as the city operating a water department, it is at a disadvantage to the gas company.

"It costs more to operate a city department than it does a private department.

"I think it is an unfair comparison between the waterworks."

At this point Chairman Perry, of the Georgia commission, asked the witness a few questions. The following dialogue ensued:

CHAIRMAN PERRY: "Did I understand you to say it cost more for the city to operate such a property than it would a private corporation?"

MR. BERMAN: "I think it does and purely from a political standpoint."

CHAIRMAN PERRY: "You think politics control the city's business judgment?"



## PUBLIC UTILITIES FORTNIGHTLY

Mr. BERMAN: "I think an executive in a corporation who sees an article advertised cheaply and has the money to purchase it can do so economically; but in the city we have to ask for bids and we have local people who want to sell their products and who object if we buy elsewhere. So, it is impossible to operate any city business as cheaply as a private corporation."

CHAIRMAN PERRY: "Stated in other words, the Atlanta Water Works System could be operated with less cost than at present?"

Mr. BERMAN: "I believe any private concern can operate any business cheaper than the government can and I am opposed to government operation except in cases of emergency."

but his position in this particular proceeding, while entirely plausible, seems novel. Mr. Berman evidently thinks that privately owned utilities by reason of their freedom from legal restrictions to which publicly owned utilities are subjected should be more economically operated than publicly owned plants and, further, that the public may reasonably expect that these economies will be passed on to it in the form of reduced rates.

This is a frank attitude but, apparently, a practical one.

—F. X. W.

THE soundness of Mr. Berman's conclusions are perhaps debatable,

TESTIMONY BEFORE THE GEORGIA PUBLIC SERVICE COMMISSION. *Re Atlanta Gas Light Co.* May 13, 1931.

### A Utility Company that Maintains Its Own News Service to the Press

A CONTRIBUTOR to a recent issue of *Telephony* reports a rather unusual press relations policy that is being used by officials of the Lincoln Telephone & Telegraph Company, which operates in twenty-two counties of Nebraska. It appears to be the aim of this company to break into the news print as much as possible. The company's officials point with pride to 2,173 favorable clippings gathered during 1930 in these twenty-two counties as against 169 unfavorable clippings.

The company has abandoned the policy of sending handouts from the home office at Lincoln, because of the well-founded suspicion that most of this matter finds a prompt resting place in the editorial wastebasket. Instead, contact is made with local editors through the local exchange manager who must have the tact to make these approaches diplomatically.

When contact is thus made, the manager sends along local news stories concerning such matters as new construction that affects local telephone service, service records of local employees, safety devices used by the

company, the number of increase of subscribers, the work of operators, and so forth.

In addition to this, the local managers have been encouraged to develop a "nose for news" in order to beat the press association if possible in relaying the information concerning some "break" of general news value to local editors. In view of the extensive use made of the telephone in emergencies, it is possible for a telephone system functioning over a wide area to obtain such information before press association men are even on the job. Two bank robberies, an accidental electrocution, and a fire were reported in this fashion.

While this public relations policy is ambitious and launched in the right direction for the purpose of obtaining the confidence of editors who might otherwise be critical of the utility, is there not a danger, in event that the general newsgathering service of the utility were carried on a large scale over a wide area, of antagonizing the press association by virtue of mere competition thus afforded? Such en-

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mity might do enough harm to the utility to outweigh any good resulting from the goodwill of local editors. Utility officials who are competent enough to establish such a successful press relations policy, however, can

probably be depended on to forestall any such mistakes if and when there is any danger of them occurring.

—J. D. C.

HERE AND THERE IN TELEPHONE WORK.  
*Telephony*. March 28, 1931.

### Uncle Sam, Contractor, Faces a Dam Site of Labor Trouble

**B**OULDER DAM refuses to become a dead issue. Judson King, himself an ardent believer in the feasibility of government ownership and operation of utilities, now brings us the disheartening news through the columns of *The New Republic* that the new project, instead of becoming a monument to publicly owned utility operations, threatens to become a nesting place of harpies preying on the vitals of the poor.

Mr. King reports *The Electrical Workers' Journal* as stating:

"The big dam which has become the hope of thousands for years has become an aggravating, not an alleviating, factor in the depression."

It appears that workmen are being mulcted of earnings by extortionate

boarding and supply bills, that they are at a pitiful disadvantage in negotiating with contractors as a result of the "open shop" policy of these contractors, and that the lives of all are endangered by cheap, unskilled, and in many cases, foreign labor.

Mr. King blames these deplorable results upon the administrative policy of Secretary Wilbur in farming out Boulder Dam construction to private contractors. Mr. King apparently believes that the United States, having finally decided to own and operate Boulder Dam, ought to go the whole hog and build it as well.

—J. D. C.

OPEN SHOP AT BOULDER DAM. By Judson King. *The New Republic*. June 24, 1931.

### A Step Toward the Standardization of Electric Meter Regulations

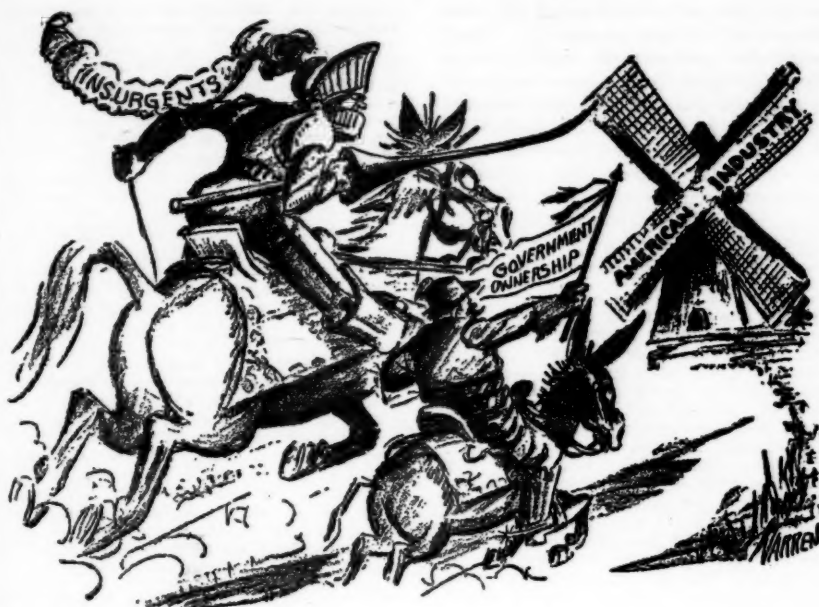
**R**ULES and regulations for electric meters have been adopted by the commissions in twenty-three states and the District of Columbia. To show clearly the similarities and differences in the rules so far adopted by these commissions, abstracts of these rules have been made by the meter committee of the engineering national section of the N.E.L.A. in the form of a neat summary report of 19 pages which may be had by N.E.L.A. members for 25 cents per copy, and by non-members of

the Association for 40 cents per copy.

The purpose of the report is to acquaint those interested in meter practices with the rules in effect throughout the country. It is hoped that where differences exist between states an effort will be made to effect such changes as will ultimately provide standardization of service rules for all states.

—D. L.

PUBLICATION No. 132. May, 1931. National Electric Light Association, 420 Lexington Avenue, New York, N. Y.



The Ledger, Philadelphia

DON QUIXOTE AND SANCHEZ PANZA UP-TO-DATE

## Is Government Ownership a Cure-All for Our Economic Ills?

GOVERNMENT ownership seems to be advocated as a solution for problems as far apart as the poles. Critics of the electrical utilities, for instance, who suggest government ownership as the only way in which the common people will ever get a square deal, stress alleged exorbitant and extortionate profits realized by the power utilities during the last few years as the principal reason why the government should put an end to this exploitation of the public. Those who advocate government ownership of railroads, on the other hand, point out the seeming failure of the railroads to operate profitably under private management as a real argument for social control.

In other words, government ownership is suggested (1) for the electrical

utilities because they are making too much money; (2) for the railroads because they are not making enough money.

This proposal of an identical remedy for contrary economic ills is not necessarily *prima facie* evidence of an unsound analysis. To use a homely analogy, it is fairly respectable medical practice today to prescribe a diet for obesity that does not differ radically from that prescribed for lack of weight. Such a paradox, however, does require a reasonable explanation before meriting the approbation of clear-thinking citizens.

THE progressive weekly, *The Nation*, is among those who suggest the economic ineffectiveness of the

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present private management of our railroads as a sound ground for trying government ownership. Commenting editorially upon the recent petition of the railroads for a 15 per cent blanket increase of freight rates, it finds that the railroads are indeed in a bad way, that they have attempted operating economies to cut mounting deficits and failed, in short, that they have a right under the law to ask for the 15 per cent boost. The editorial continues:

"Under the law the commission must fix rates so as to yield, if possible, a 'fair return' (fixed at the moderate figure of 5½ per cent) on the value of property used in transportation. Accordingly, the roads are clearly entitled to the increase of rates requested, provided we assume that such rates will substantially increase revenues. Unfortunately, some of the executives themselves are doubtful whether a chief result may not be the further diversion of traffic to those deadly competitors, the motor trucks, and consequently little increase of railroad revenues. But assuming that no such result occurred, and that the railroads gained, might it not be economically disastrous, in a time of profound business depression, to lay on prostrate farmers, on manufacturers unable to sell goods for enough to cover the cost of production, or on the customers of both, the burden of a 15 per cent increase of freight rates? Such action would appear to us extremely unwise. The political results, not to speak of the economic consequences, might well prove fatal to our whole existing scheme of railroad control. For a decade railroad executives, necessarily pursuing the interests of their stockholders, have held up the processes of consolidation contemplated by law and required in the interest of economy and efficiency. As a result of the competition enjoined on

them by law, they are today running numerous expensive and unnecessary passenger trains that are distinctly uneconomical. In the public view and in their own view, as illustrated by the above examples, their roads are private profit-making enterprises; yet they ask the public (and properly under the law) to tax itself at a time of severe business depression for the benefit of their investors and stockholders. The Transportation Act of 1920 worked fairly well under conditions of prosperity (though the roads received \$2,579,000,000 less than a 'fair return' between 1921 and 1930), and the railroads acquitted themselves handsomely. Depression brings out the fundamental logical contradiction of the act, with its attempt to assure 'fair return' on private property.

"What then? We hope to see an irresistible movement for government ownership of the roads brought about by railroad security owners themselves in order to avert financial disaster. We should heartily welcome such a movement, for it would give to the American people and their government the first opportunity they have ever had for developing a transportation system without having at the same time to overcome the obstacles inherent in profit-making private ownership of railroads."

Granted that the elimination of the security holder and unnecessary duplication of facilities, under government operation will improve the gross rail business, the American taxpayer probably will still want to be sure that the railroads will not continue to write their records in red ink, and that he is not being asked to buy a moribund industry before he rejoices at the "opportunity" which *The Nation* welcomes.

—F. X. W.

THE RAILROADS AT BAY. An editorial. *The Nation*. July 1, 1931.

## Federal Regulation of Broadcasting in the Interests of Schools

THE recent troubles of the Radio Corporation of America and the chain broadcasting interests with regulatory authorities at Washington have probably served to divert popular attention from the action of the National Congress of Parents and Teachers, at its annual meeting at Hot Springs,

Arkansas, held early in June, 1931.

The congress adopted the following resolution:

"We believe radio broadcasting is an extension of the home; that it is a form of education; that the broadcasting channels should forever remain in the hands of the public; that facilities should be fairly divided between national, state, and

## PUBLIC UTILITIES FORTNIGHTLY

county governments; that they should be owned and operated at public expense."

This development is rather far-reaching and will probably not be unanimously agreed to. The educational group is small in number but well organized, closely knit, and, accordingly, politically powerful. It is perhaps the aim of the educators, through the nationalization of broadcasting, to make radio programs, as far as possible, the handmaiden of education. This aim in itself

is inspired, no doubt, by a lofty motive, but there are a considerable number of Americans who would probably prefer to retain the purely entertainment features of the radio. It may behoove this group to organize a counter movement unless they are willing to have culture forced upon them.

—D. L.

PROCEEDINGS of the National Congress of Parents and Teachers. Hot Springs, Ark. June, 1931.

## Competition as the Criterion of Utility Rate Making

THERE is a paradox in the science of utility regulation that is worthy of the notice of Mr. Robert M. ("Believe-It-or-Not") Ripley. It is this:

State commissions never regulate utility rates. What they do regulate is utility return.

When a power company wants to charge, let us say, 6 cents a kilowatt hour for domestic current, the commission rarely stops to consider whether a kilowatt hour of electric service is intrinsically worth more or less than 6 cents. It usually considers only whether the 6-cent rate will yield to the company too much or too little profit on its valued investment.

PROFESSOR Philip Cabot, of Harvard University, startled regulatory authorities and put himself in the minority by a series of articles during 1928 and 1929 in which he advocated, substantially, that commissions really ought to regulate rates without regard to profits. More specifically, Professor Cabot believes that competition would be just as effective in regulating fair prices in the utility industry as it is in the so-called "private" businesses; only, by virtue of the necessary territorial monopolies we have given to utilities and the system of regulation we have constructed, competition in utility service does not have free play. Of course,

Professor Cabot does not advocate throwing every territory in the land wide open to competitive service. That is obviously impracticable. But he does advocate the fixing of utility rates by regulatory commissions on their best estimates of the "price which would obtain under a system of free competition, where both buyer and seller are free agents."

Dr. John W. Boatwright, of Northwestern University, gives us a succinct and clear presentation of the salient points of Professor Cabot's ingenious and interesting regulatory proposals, and also a very intelligent criticism of them by himself. Dr. Boatwright doubts the practicability of the Cabot plan. He summarizes his objections as follows:

"The obstacles confronting the proposed plan for utility rate regulation may thus be summarized: (1) competing substitutes are often not on an equal competitive basis when considering services rendered; (2) demand for the service is not as elastic for rate decreases as for rate increases nor in all uses; (3) the commissions would be faced with the task of determining what uses of electricity were competitive and which were not—a tremendously difficult task; (4) maximum competitive profit is not a sufficient check on self-interest to prevent discrimination against certain classes of customers; and (5) the allocation of costs as influencing rate estimates is still present and must be considered if a



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competitive price, based on 'best estimates,' is to exist."

OF course, all such discussion is pure theorizing and can have no effect upon regulation under the present conception of the Constitution as interpreted by the Supreme Court. For practical purposes it is now the law of the land that utility rates must be fixed on a basis having a substantial relation to the value of the utility's property devoted to public service; and they must

be sufficient to yield a reasonable return to the utility computed on that basis, except in cases where the rate would manifestly be beyond the value of the service rendered. Nevertheless, Dr. Boatwright's article is well worth reading. The Supreme Court has been known to change its mind before.

—F. X. W.

COMPETITION AND ELECTRIC RATES. By John W. Boatwright. *The Journal of Land & Public Utility Economics*. May, 1931.

## Publications Received

INTERSTATE TRANSMISSION OF ELECTRIC POWER. By Hugh Langdon Elsbree. Cambridge, Mass.; Harvard University Press. Price \$2.50. 1931.

A study in the conflict of state and Federal jurisdictions.

DETROIT RULES ITSELF. By William P. Lovett. The Gorham Press, Boston, Mass. Price \$2.00. 1930.

Mr. Lovett has written a book purporting to show that Detroit is "the best example of a successful laboratory in democracy to be found in America today." His exaltation of the autocratic Mayor Pincree, who led the fight against the Detroit street railways, is climaxed with the statement that in 1922, twenty-one years after his death, "municipal ownership of the city street car system became a fact under the

administration of Mayor James Couzens. Since then the 'people's railway' has been operated in Detroit with a measure of satisfaction which has made it unique among American cities." Mr. Lovett's subsequent chapter on the traction troubles of Mayor Couzens makes one wonder just how the author meant that word "unique."

THE INTERSTATE COMMERCE COMMISSION. Part One. By I. L. Sharfman. The Commonwealth Fund, Division of Publications, New York, N. Y. Price \$3.50. 1931.

THE NEMESIS OF AMERICAN BUSINESS. By Stuart Chase. The Macmillan Company, New York. 1931. Price \$2.00.

THE PROBLEM OF UNEMPLOYMENT. By Paul H. Douglas and Aaron Director. The Macmillan Company, New York. Price \$3.50.

## Other Articles Worth Reading

TRANSPORTATION AGENCIES LIKE TO FIGHT. *National Sphere*; June, 1931.

THE FARCE OF POWER REGULATION. By Mauritz A. Hallgren. *The Nation*; June 24, 1931.

HIDDEN SUBSIDIES. By Fred Wesley Sargent. *World's Work*; July, 1931.

Mr. Sargent is a railroad man and he wants a square deal for the railroads. He makes it appear that the government, by direct or indirect means, is aiding every form of common carrier except the railroads—the carrier that most needs help. Taxpayers build highways for motor carriers, while railroads must not only pay for their own right of way, but pay taxes

on the value of it. Mr. Sargent shows how the airplane carrier, the barge carrier, and even the pipe line carrier are the beneficiaries of "hidden subsidies."

AIRCRAFT LIABILITY TO PERSONS AND PROPERTY ON GROUND. By John C. Cooper, Jr. *American Bar Association Journal*; July, 1931.

WASHINGTON'S PUBLIC OWNERSHIP DISTRICT POWER LAW. By James K. Hall, Ph.D.

The story of a hot campaign resulting in victory for the District Power Bill making possible rural public ownership of light and power systems. Probable significance of the new law. *National Municipal Review*; June, 1931.





## OUT OF THE MAIL BAG

### A Contribution of Power and Distinction

I FOUND the April 16th issue of **PUBLIC UTILITIES FORTNIGHTLY** particularly interesting by reason of the article by Mr. John Spargo. Hardly anyone writes with such clearness and power as he. His contributions give distinction to any magazine.

—BAINBRIDGE COLBY,  
New York City.



### The Dangers of a Smug State of Mind

I HAVE read with a great deal of interest Mr. Harry Reid's article in **PUBLIC UTILITIES FORTNIGHTLY** on public relations of the utilities.

I want to congratulate the author on the very able way that he has discussed the matter. I was particularly impressed with his statement as to the smug state of mind which so many utility operators are apt to get into, and not realize the rumblings that usually predict difficulty if they are not noticed. I am most confident, however, that the type of public utility operator is such that he fully appreciates the importance of the matter and needs only to be reminded of it. I am sure the Reid article should have great value for that reason.

—THOS. J. WALSH,  
New York City.



### Uncle Sam as an Employer of Labor

THE controversy waged in the pages of **PUBLIC UTILITIES FORTNIGHTLY** between William Atherton Dupuy, who upheld the generally accepted American policy of keeping the government out of the utility business, and Judson King, who justified the intrusion of the Federal government into the realms of private business enterprise, prompts me to recount the experience of 1,340 Navy Yard workers whom Uncle Sam has defrauded out of \$314,000 in wages that have been due them since 1908. Possibly their experi-

ence in attempting to collect this sum may serve to cool the ardor of some of the government ownership advocates who believe that "working for the government" is preferable to working for private corporations.

In spite of the fact that these 1,340 workmen were awarded their wages by a United States court, and the United States Senate has thrice voted the appropriation, on each occasion the House has failed to concur. The net result is that the workmen have so far received a sum that is at least easy to remember—exactly nothing. In 1911, indeed, the House actually jeered these men. (See the *Congressional Record* No. 2975, February 15, 1911.)

The Frank P. Walsh Industrial Commission, which spent \$500,000 of real money from the United States Treasury, had Ford and Rockefeller as witnesses on labor and wage questions. But the old Navy Yard workers were refused a hearing. Trust a government commission to smother wage-swindles that hurt the bureaucrats!

In May, 1930, the Merchants Association of New York voluntarily urged Congress to pay the wages promptly. My own efforts to help these men cover twenty years. I have run for Congress six times, in New York city, on this issue. I find the average men intensely interested in the fact that the world's richest employer could so cruelly treat men who worked in good faith.

These 1,340, armed with a United States court award, are part only of Navy Yard workers to whom are due many millions. Despair and disgust at the cruel odds in favor of an employer so rich and indifferent explain the fact that only 1,340 went through the weary, red-tape of court action. No wonder the Walsh commission wished the facts smothered, even after Secretary of Labor Wilson requested a hearing! Sticklers for precision may find House report 1684-1930, Senate report 244-1926, and page 10681 of the *Congressional Record* of August 10, 1912, confirmatory of these statements.

I believe that the men will be paid when the public learns facts. But the record of the case to date furnishes an illuminating commentary on what the worker may expect from Uncle Sam as his employer.

—GEORGE HIRAM MANN,  
New York City.

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# The March of Events

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## Trade Commission Submits Report on Utilities

**T**HE Federal Trade Commission in June sent to the Senate an interim report of progress on its investigation of the power utilities. The report states in part:

"Since the last interim report, ten accountants' reports were completed on operating companies; management reports were finished on three operating companies, and reports on interstate transmission of electric energy were finished on three operating companies. The field accounting examination was continued on six holding company groups and on three operating companies.

Accounting work was begun on one operating company. Preparation of reports on the management, servicing, and corporate interrelations of several holding companies, service organizations and operating companies were continued, and reports on the transmission of electric energy across state lines are being written for two large holding company groups."

The commission has been investigating public utility financing for three years and its task is not quite half finished, it is said. No more hearings are to be held until after Labor Day, but the commission's staff of nearly one hundred investigators will continue its work of collecting data in all parts of the country.



## Alabama

### Utility Rate Reduction and Equalization Are Urged

**A** RESOLUTION adopted by the Alabama League of Municipalities at its annual convention in June urges the public service commission to "continue its activity in equalizing and reducing rates wherever it finds, from investigation, that it is justified." The resolution declared that "it is highly important and desirable that all utility rates in Alabama be reduced to a minimum profit-bearing basis in order that the public may be benefited by such a procedure."

President J. M. Jones of the Birmingham city commission, says the *Mobile Register*, led a fight against approval of the resolution

after it had been reported favorably by the committee on resolutions.



### Tax on Natural Gas Is Approved by House

**T**HE house, according to the *United States Daily*, has passed a bill imposing a graduated tax, beginning August 1, 1931, on all natural gas piped into the state. There would be an initial tax of one-half cent per thousand cubic feet, increasing to three-quarters cent the following year and to one cent during the third year and thereafter. The bill was to go to the senate.



## California

### Relief to Large Users of Water Is Aim of Committees

**T**wo special committees were appointed at a meeting of water users in San Diego for the purpose of studying the cost of producing water served to domestic consumers and to propose a scale of rates that would tend to lower present water rates to large consumers. The meeting was attended by

representatives of nearly every group of water user in the city, from the individual home owner to the United States Navy. There were included representatives of nurseries, industrial plants, and hotels.

Any plan which lowers the rates to all users, it was explained, will add to taxes, while it would be necessary to raise the rates of one class in order to lower the rates of another class. Several protests were made against raising rates for the small consumer

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in order to make rates lower for the larger consumer.

It was reported that at present four hundred large water users in the city are consuming 37 per cent of all the water used. One speaker, a florist, according to the San Diego *Tribune*, said that he found water

rates prohibitive to the production of flowers at a profit, and that he recently went to Los Angeles and spent \$312 for flowers, which he brought back to San Diego and sold. He said he formerly had seven acres under cultivation but now he has only half that amount of land under cultivation.



## Connecticut

### City Plans New Water Rates to Aid Large Consumers

WATER rates in Waterbury, according to Mayor Frank Hayes, quoted in the *Waterbury Republican*, will be raised as soon as the present economic depression eases. The city operates the waterworks. The *Republican* adds:

"The mayor said that the proposed change

will encourage large use of water as the pro rata charge will decrease as the consumption mounts. At present factories and large users of water have to pay the same rate as small consumers which results in their bearing an unjust burden. As a result they are sinking wells, building reservoirs of their own, and turning to river water. The new city plan will involve a fixed charge, a meter change, and a sliding scale which will decrease as the consumption mounts."



## District of Columbia

### Pupils' Fare Attacked

THE Washington Railway and Electric Company, the Capital Traction Company, and the Washington Rapid Transit Company on June 26th filed suits against the public utilities commission in the District supreme court attacking the order providing for reduced fares for school children. It is charged that the order was issued without regard to valuations of the traction properties which have been standardized by the courts.

The companies declare that the fare order was not based upon "legal and sufficient notice and proper hearing" nor upon sufficient evidence that the reduced rate would afford a "reasonable return." The *Washington Herald*, in stating the objections of the companies, lists their contentions:

"That the commission, in reducing the rate for school children, violated the intent of the act of February 25, 1931, authorizing reduced fares for pupils, and forced the companies to carry passengers at less than cost.

"That the act itself was unconstitutional.

"That it was not the intention of Congress that the commission should fix fares for school children 'without reference to other street railway fares.'"

Mr. Keech, people's counsel, has asked for a rehearing. He contended that the fare order was in violation of the congressional act. He also claimed, quoting from the *Herald*:

"That it violated the purpose of Congress in requiring the purchase of tickets in strips

of 10 or 40, rather than permitting a 3-cent cash fare.

"That it was discriminatory in that it limited the reduced fare to children attending public schools and schools with courses similar to those in the public schools.

"That it violated the purpose of Congress in limiting the time within which the children may make use of the reduced fare.

"The entire school rate question now appears to be a question of 'who gets there first.'"



### Commission Will Investigate Gas Rates and Pressure

THE public utilities commission has served notice on the Washington and Georgetown gas light companies of its intention to investigate gas service in general, including bills rendered under the existing schedule of rates during the last eight months, pressures in transmission and distribution systems during this period, minimum and maximum pressures to be allowed in the future, as well as the variation to be allowed between the daily maximum and minimum pressures, adequacy of the transmission and distribution systems of the companies, both as to existing loads and any anticipated increase thereof, and charges, particularly in so far as they are affected by pressure.

This action was taken following complaints

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by citizens and civic organizations that the bills had been increased because of an increase in pressure, which, it is asserted, was unlawful.

A plan has been proposed under which rates would go down in proportion to increase of pressures in excess of prescribed limitations. Existing rules permit a 6-inch maximum and a 2-inch minimum, although the commission last January authorized a temporary 8-inch maximum to meet an increased demand for gas for house-heating purposes. The companies have asked authority to increase pressures to a 10-inch maximum and a 3-inch minimum.

There has been some agitation for action by the commission in fining the companies for alleged violation of gas pressure regulation. The *Washington Star* states:

"Taking exception to the reported position of the public utilities commission that fines imposed on gas companies for violation of gas pressure regulations would be charged to operating expenses and, therefore, ultimately passed on to the consumer, Peoples Counsel Richmond B. Keech today submitted a memorandum to the commission, pointing out that the classification of accounts specifically provide that all penalties and fines shall be charged to profit and loss."

Another feature of the gas rate situation is a complaint by caterers, bakeries, restaurants, and similar establishments that they are discriminated against by the house-heating rates. Mr. Keech, according to the *Washington Star*, has written the gas utilities stating that

a proposed schedule is inadequate to remedy the alleged discrimination. He says:

"This office recently has had a number of inquiries by caterers, bakers, and restaurant operators as to why they are required to pay the amount fixed in schedule C for gas, the amount being far in excess of that charged for house heating, and notwithstanding the fact the consumption of a number of these persons or companies exceeds that consumed by a person using gas for heating purposes.

"I have, likewise, received a communication from a business concern here stating that, for the consumption of approximately 130,000 cubic feet a month, they are being charged approximately 91.74 cents per thousand cubic feet. Inasmuch as the approximate cost per thousand cubic feet of gas to a person who heats his house by gas is about 75 cents, and in many instances not nearly 130,000 cubic feet per month is consumed, this merchant's bill is approximately 20 per cent higher than that of a person using gas for heating purposes."

Schedule D, as submitted, starts with a requirement that a customer using the schedule guarantee to use 100,000 cubic feet of gas per month. This, it was said, would exclude from its benefits many of the bakers, restaurateurs, and others who have sought relief. The price proposed under this schedule is 90 cents per thousand for the first 300,000 cubic feet, 80 cents for the next 300,000, and 75 cents for all in excess of 600,000 cubic feet per month. There are also discounts for load factors.



## Illinois

### Natural Gas Brings New Distribution Problems

MANY new problems in distribution are going to face the gas utilities with the arrival of natural gas, say officials of the Illinois Power & Light Corporation, according to the *Jacksonville Journal*. Chief among them is whether the utilities should distribute straight natural gas or mix it with manufactured gas and distribute it in that form until it has been demonstrated over a sufficient period that the supply of natural gas is adequate and uninterrupted. Quoting from this paper:

"With the possibility that mixed gas may be distributed over a trial period, it will mean the continued operation of the gas manufacturing plant here on the present basis and with approximately the same personnel.

"To transform the existing facilities for the distribution of natural or mixed gas is going to mean considerable expense to the

distributing company. Gas burning appliances will have to be adjusted because of the higher heat value of natural gas. Distribution lines will have to be tightened for the natural gas, which is harder to confine than artificial gas and some new mains will have to be laid to serve industrial consumers.

"It is expected that the natural gas will be available before winter, and that at that time there will be a revision in gas rates in Jacksonville that will be advantageous to the gas users. It is expected that gas for water heating, house heating, and industrial purposes in particular will be sold at considerably lower rates than at present.

"It is of interest to know that a therm basis for gas is now considered the most modern of rate structures. The therm rate is almost universally used in England and has the advantage to the customer that gas is sold there under units of heat value rather than on a cubic foot basis. This rate basis has been in effect for some time in Chicago, and numerous other cities and

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will probably be adopted in Jacksonville."

The Illinois commission recently authorized the Panhandle-Illinois Pipe Line Com-

pany to construct a gas transmission line across the state. Contractors are at work on some sections of the line.



## Kansas

### Governor Urges Lower Gas Rates

THE legislature at the last session appropriated \$100,000 to enable the commission to investigate gas rates. Governor Woodring has for several months been negotiating with H. L. Doherty & Company for a voluntary reduction in gas rates. He now, apparently, has given up such negotiations, and in a memorandum to Chairman Greenleaf, of the commission, asked the commission to proceed with all the resources in the hands of the state to force action that would bring a reduction in rates.

### Special Charges Are to Be Investigated by Commission

THE public service commission on June 23rd directed the public utility corporations to appear and show cause why meter charges should not be reduced, the ready-to-serve charges abolished, and the extra equipment charges eliminated in all utility schedules in the state. The first week in August has been set for a hearing on the matter. The *Kansas City Times*, reporting this action, says:

"These charges have simply been added to regular charges. Many utilities will not install meters until the prospective customer has made a deposit of from \$1 to as high as \$5 as a guaranty that the bills will be paid. The companies have the use of this money for as long as the customer continues.

"In the war period the companies hit upon the ready-to-serve charge as a means of bolstering their collections. This is a charge of so much per month collected from the customer because the company has been to some expense installing the lines for gas or electricity and being ready to serve the customer. Other companies have what is called a service charge which is collected to pay the expense of reading the meters and making out and collecting bills.

"The telephone companies are the chief offenders on the extra equipment charges. They make a flat charge per month for the use of a telephone. But if the customer desires some special equipment, a swinging arm for his telephone set or a French telephone, the companies make an extra charge each month. In the one to three years the cus-

tomers have paid the actual cost of the equipment and the company continues to collect the rentals.

"The utilities may have some reasons for maintaining these charges. If so, the commission wants to find out what they are and whether these reasons are sufficient to warrant a continuance. Each of the different classes of utilities will be given a day in which to make the showing."

### Telephone Rate Hearings Are Set by Commission

THE commission, according to an announcement in the *Kansas City Times*, will begin hearings on the entire telephone rate structure in the state about September 1st. Accountants for the commission, it is expected, will complete an audit of the Southwestern Bell Company about August 1st and have a report ready within thirty days after the audit is completed. Engineers have been at work for several months obtaining data on the cost of materials used by the company, and several weeks ago the accountants began working on the books of the company in Kansas City.

At the time the investigation was inaugurated, the commission reported that the cost of copper, steel, and other materials, including poles, had dropped so much in recent months that it was believed the company should reduce its rates so that the customers would get some benefit from these reduced costs.

The Southwestern Bell Company, after resorting to Federal courts, obtained a general increase in rates in all exchanges several years ago, and it is charged that there has been nothing done to bring the rates down in accordance with the lower cost of materials and the changes in labor cost since that time.

### Merchandising Ended, Utility Stores Become Exhibition Rooms

TWENTY-NINE retail establishments in Kansas cities served by the Kansas Gas & Electric Company, says the *Wichita Eagle*, will be turned into exhibition rooms only



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after August 1st. This will be in compliance with the law passed by the 1931 legislature prohibiting the utilities from selling merchandise. L. O. Ripley, vice president and chief field executive, is quoted in the *Eagle* as saying:

"Since the passage of this act we have given continued consideration to the best method of meeting the new situation. We have always felt that increased use of electricity brought about by our merchandising activities has resulted in definite advantages to our consumers in the form of lower electrical rates. For that reason we intend to do everything in our power to promote the sale

of electrical merchandise through other dealers.

"Kansas Gas & Electric Company never has followed the practice of cutting prices on merchandise and making the ratepayers stand the loss. Our merchandising department always has been required to stand on its own feet.

"The carrying out of the provisions of this law on our part naturally means the displacement of some of our employees who have been engaged in this activity. Within the last few days we have been exhausting every means at our command to secure employment for them with other dealers."



## New Jersey

### Splitting of Bus Zones Is Requested

THE Second Ward Progressive Association of Summit and the common council have proposed the splitting of bus zones to make possible a 5-cent fare within the city limits. A proceeding for this purpose has been started before the commission.

The 10-cent bus fare applies alike to a short ride within the city limits and to the boundaries of the zone in which Summit is included.

An effort is now being made to obtain a fare sufficiently low to make it feasible for those who live and work in different parts of the city to ride to and from work, it is stated in the *Summit Herald*, although the proposal has not been favored by the Public Service Co-ordinated Transport.

Proponents of the 5-cent fare argue that a similar tariff is in use in neighboring cities, and that a lowered fare would mean a sufficiently increased number of bus passengers to more than make up the loss of revenue from a higher fare.



## New York

### New York City Street Cars to Be Scrapped

BUS substitution for the trolley system in Manhattan is looked for in the near future as a result of the approval of a former contract and a franchise for bus operation mutually satisfactory to the city of New York and the New York Railways Company and its subsidiaries. Says the *New York Sun*:

"The contract, it is understood, calls for the removal within two years of the trolley tracks on Seventh avenue, Lexington avenue, Broadway, Lennox and Columbus avenues and also on Eighth, Fourteenth, Twenty-third, Thirty-fourth, and One hundred sixteenth streets and the substitution of a bus service. All the above-mentioned trolley lines are operated by the New York Railways Company.

"Chairman Delaney declined to reveal details of the agreement in advance of its presentation to the Board of Estimate. It is understood, however, that a 25-year franchise was agreed upon for all routes, instead of

the 10-year term originally recommended for the crosstown lines. There will be no recapture clause in the contract like that contained in the franchise awarded the B. M. T. in Brooklyn.

"A zoned fare is contemplated on the longitudinal routes, including the proposed Broadway, Columbus, and Lenox avenue bus lines. The fare for each zone, the length of which was not made public, will be 5 cents.

"The 5-cent fare will not apply, however, to the extension of the routes now operated by the Fifth Avenue Coach Company, parent company of the New York Railways Corporation. On these routes the 10-cent fare now prevailing on the Fifth avenue company's routes will be charged.

"The Fifth avenue company has been told that it will not be granted a franchise to operate a bus route down Seventh avenue, passing through Times Square. There will be a 5-cent fare bus line operating on Seventh avenue in place of the present trolley line, and an additional bus line through the theater sector would only clog traffic, it is believed."

The street railway company, under the con-



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tract, must surrender its perpetual trolley franchise in return for bus franchises, but it will lose the latter unless motorization of the trolley lines is completed within two years.

### New York Transit Unification Plan Nears Completion

THE transit commission early this month was working on the unification plan, a public hearing on which had been set for July 16th. Negotiations were under way with rep-

resentatives of the B. M. T. and the I. R. T.

No action was taken by the Board of Estimate of the city on a request by Samuel Untermyer, former special counsel to the transit commission, that it proceed at once to advertise for bids for an operating contract for the Eighth avenue line of the independent subway system constructed by the city. Mr. Untermyer had suggested that instead of the B. M. T. a private company could operate the lines more cheaply.

The unification plan under consideration is the so-called Untermyer Plan considerably revised both as to form and content.

## Ohio

### Toledo Car Franchise Revision Is Approved

LEGISLATION authorizing a vote at the August primary on the proposed extension and revision of the street railway franchise in Toledo has been passed, according to the *Toledo Blade*, with only one dissenting vote.

The ordinance provides for a 10-year extension of the franchise and grants the Com-

munity Traction Company exclusive street car and bus transportation rights within the city during the extension. The company may establish a 5-cent fare for school children, including high school students, and may also provide a weekly and Sunday pass system.

The revised ordinance compels the company to provide any extension bus service which the council, with the approval of the street railway board of control and the mayor, may designate.

## Oklahoma

### Shawnee Citizens Will Vote on Gas Franchise

THE city council of Shawnee, at a special meeting on July 1st, decided to submit to citizens at an election on August 6th the terms of a franchise offered by the Oklahoma Natural Gas Corporation. The franchise as proposed would run for twenty-five years.

This action by the council followed the submission of a franchise offered by the Western Service Corporation for the same election date. Both franchises are said to be similar in terms, although the franchise proposed by the Western Service Corporation contains a provision that the franchise can be sold within five months from date of passage by voters.

The city council decided to put the Oklahoma Natural Gas Corporation franchise on the ballot after numerous protests had been made by citizens against tearing up the streets in case the franchise was granted to a company to compete with the Oklahoma Natural.

The Oklahoma Natural Gas Corporation offers a rate of 45 cents per thousand for the first 100,000 cubic feet and 18 cents for each thousand thereafter. It also agrees to pay a tax of 2 per cent of gross receipts and to give 5,000,000 cubic feet of gas per year free to the city for municipal use.

The council has not granted any franchise but is merely submitting both franchises to the people for approval or disapproval.

### Telephone Rate Investigation Is Ordered

THE corporation commission on June 18th ordered an investigation of the rates and charges for toll and local services and practices of the Southwestern Bell Telephone Company and the Oklahoma-Arkansas Telephone Company. The American Telephone & Telegraph Company, the Western Electric Company, and about two hundred independent exchanges in the state were also named as parties. This investigation was authorized by a law passed by the last legislature.

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Governor Murray had previously announced that he would instruct the attorney general to file suit against the Bell Telephone Company to collect penalties totaling \$500,000 for failure to file, since 1920, reports showing extensions of capital used in the state. The law provides a penalty of \$25 a day for failure to file such reports with the state officials.

The investigation consists of two parts. The first part embraces differences between the Bell interests and the Oklahoma-Arkansas

Telephone Company and between the Bell and the Southwestern Associated Company. The other part of the probe relates to rates, joint rates, tolls, charges, rules, regulations, practices, classifications, and schedules, proposed adjustments, and existing orders and regulations of the commission. It is said that there has been no general investigation by state agencies into valuations and rates of the companies since 1915. A few voluntary reductions have been made, mostly in toll rates, since 1919.



### South Carolina

#### Committee to Investigate Electric Rates Is Named

**G**OVERNOR Ibra C. Blackwood has named a committee of five citizens to investigate electric rates throughout the state. This committee will submit its findings to the general assembly, the governor, and the state railroad commission on or before the third Tuesday of January, 1932. An appropriation of \$50,000 has been made by the legislature to meet the expense of this work.

The men appointed on this committee are E. P. Vandiver, banker and business man, B. H. Peace, newspaper editor and publisher, Thomas B. Pearce, business man and a former member of the state senate, H. Klugh Purdy, lawyer and a former member of the state senate, Charles W. Coker, business man, farmer, and former senator.

The governor, in appointing the committee, said that he sought to avoid men who would be partisan in their views, and that he refrained from appointing any members of the general assembly on the committee as they had all gone on record as to their views on power in the state in various ballots taken.

He continued with the following statement:

"This tribunal, through its report and recommendations, should settle discontent as to rates being charged for electric power in South Carolina. And it might be said that the work of this committee will in no way abridge or augment the powers of the South Carolina Railroad Commission.

"The committee will employ engineers, bookkeeping experts, and other assistants to get the technical information needed and then the committee will rule on the findings of these assistants."

#### Electric Heating and Cooking Rates to Be Probed

**T**HE railroad commission has ordered the Broad River Power Company to show why its electric rates for heating and cooking should not be reduced. The rate is 3 cents per kilowatt hour for all current used in addition to 100 kilowatt hours. The company is asked to show why a charge of less than this amount should not be included in the rate structure.



### Texas

#### Water Rate Increase and Stopping Free Service Considered

**A** PROPOSAL has been made by Comptroller Harry A. Giles, of Houston, for raising water rates and charging for all present free water as a means to curb the regular summer water famine, says the *Houston Chronicle*. But, it is said, Mayor Monteith and two council members have refused to commit themselves on the proposal.

The mayor admitted that the city needed more money but refused to comment further. He said there are two ways of getting more

money—raising the rates or voting more waterworks' bonds, which, in turn, would call for increasing tax assessments.

Commissioners S. A. Starkey and D. Barker, says the *Chronicle*, evaded the issue when asked how they stood. They admitted that the city needed more water. Water Commissioner James H. B. House opposed a rate increase. He estimated that 40 per cent of the city's water is sold and paid for, and that 60 per cent is donated or lost through leakage.

Increased revenue gained through the proposed changes would go for building up the water system to the highest efficiency.

## Wisconsin

### Information Concerning Affiliated Interests of Utilities Is Required

THE Wisconsin commission has ordered, pursuant to a new statute extending control over intercorporate relations which became effective June 6th, that all public utilities in the state furnish information regarding affiliated interests. They are to furnish the following information not later than August 15th.

1. Names of corporations or persons owning or holding directly or indirectly 1 or more per cent of voting stock, with the amount in each case.

2. Names of corporations and persons owning 5 or more per cent of voting stock or securities, and the amount held.

3. Names of corporations 5 per cent of whose voting stock is owned by any person or corporation.

4. Names of officers and directors.

5. Names of corporations or associations which have one or more directors in common with the reporting utility.

The commission assures the utilities that it has no present intention, and that it is not its duty, to regulate all the relations between all of the utilities in the state subject to its jurisdiction and every affiliated interest disclosed by the questionnaire or by the commission's investigation. Such a task, it is said, would probably be impossible and would certainly not be feasible. The commission continues, however, with the statement that it will be unable to perform its full duty under the new statute unless it has in its possession the information identifying those persons and corporations which are affiliated, within the meaning of the statute, with the public utilities which are subject to its jurisdiction.

Included in the new laws upon which this order of the commission is based there is a definition of "affiliated interests" which covers owners of stock and corporations with officers or directors in common as indicated in the questions propounded by the commission. It is also provided that every corporation or person which the commission may determine as a matter of fact, after investigation and hearing, is actually exercising any substantial influence over the policies and actions of such public utility, even though such influence is not based upon stockholders, directors, or officers to the extent specified,

shall also be considered affiliated interests.

Provision is made that no agreement for management, engineering, accounting, legal, financial, or similar services and no agreement for the purchase, sale, lease or exchange of property, or for the furnishing of service, between a public utility and any affiliated interest, shall be effective unless it shall receive the written approval of the commission. The commission is forbidden to approve such a contract unless satisfactory proof is submitted of the cost to the affiliated interest of rendering the services or furnishing the property or service described.

Further provision is made that in any proceeding involving rates or practices of a public utility, the commission may exclude from the accounts any payment or compensation to an affiliated interest for any services rendered or property or service furnished under existing contracts or arrangements with affiliated interests unless the reasonableness of such payment or compensation is established. The commission is given continuing supervisory control over the terms and conditions of such contracts and arrangements so far as necessary to protect and promote the public interest. The fact that the commission shall have approved any such contract or arrangement shall not in the future preclude disallowance or disapproval of payments made pursuant thereto if upon actual experience it appears that the payments are unreasonable.

There is also a provision which declares that every foreign corporation shall be deemed to be doing business within the state if, directly or indirectly, through agents, trustees, or any other means, it furnishes to any affiliated public utility for use in intrastate operation in the state any or all of the following: (a) any managerial, supervisory, engineering, legal, accounting or financial service; (b) any equipment, facilities or commodities, by sale, lease, exchange, conveyance, license or similar arrangement.

Directors of public utility corporations are forbidden, directly or indirectly, to delegate or in any manner, temporarily or permanently, "relinquish or surrender their duty to manage and direct the stock, property, affairs and business of such corporation." Any director violating the provisions of this section may be removed by the commission, after notice and hearing. When a director is so removed he will be ineligible for a period of two years to serve as a director of such public utility.

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# The Latest Utility Rulings

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## Private Owners of Fire Protection Devices Must Pay Water Bills

THE city of Miami has a contract with the Miami Water Company which has been in effect ever since 1900. This contract provides that the city, through the chief of its fire department or any other properly authorized officer, may use water for the purpose of extinguishing fires and other public uses without charge whenever the same may be necessary.

Recently a number of private property owners installed automatic sprinkler systems for their own fire protection. When the company sought to impose a charge for the service to these systems the property owners objected that such

service was within the free fire protection clause of the contract.

The company declined to take this view of the matter and threatened to cut off service to these private automatic systems. The city of Miami sued to restrain the company from such discontinuance of service and was granted an injunction in a lower Florida court. Upon appeal, however, the supreme court of Florida ruled that service to privately owned fire protection devices was not within the free service clause of the city's contract. *Miami Water Co. et al. v. Miami (Fla. Sup. Ct.) 134 So. 592.*



## A Utility Is Not Required to Determine the Cheaper of Two Optional Rates for Its Patrons

THERE is comparatively little reported authority upon the proposition of whether or not a utility is required to place its customers at all times upon the most favorable rate available to such a customer. A recent decision of the Pennsylvania commission decides this point in favor of the utility.

It appears that a wholesale power customer in Pittsburgh received service from February 1, 1928, to October 17, 1929, under an optional rate schedule. It also learned on October 17, 1929, that it had been billed under the more expensive alternative schedule; whereupon, it complained to the Pennsylvania commission that the utility, the Duquesne Light Company, had collected excessive charges from it.

The customer contended first of all that all optional rates are improper and discriminatory and that there is only

one rate properly applicable to any particular service except under unusual conditions. This contention was overruled by the commission. The patron further urged that even assuming the legality of an optional rate, it was the duty of the utility to investigate the requirements of the individual customer's service, to calculate which of the alternative rates would be cheaper for such customer, and to bill him accordingly.

In overruling these contentions advanced by the customer the commission stated:

"A utility has the duty to make proper classifications of its service and to prescribe rates accordingly, but having done this and having made all proper information available to its patrons, its obligation has been met. No public service company is advised beforehand what amount of use a given consumer will make of its service or how efficiently it will be taken, as is illustrated by the conditions at complain-

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ant's store where rate "W" was first adopted and then discarded. Obviously a consumer who makes continuous and heavy use of a comparatively small amount of equipment would much prefer a rate based largely on a service or demand charge, with a low consumption charge, rather than a rate based mainly on the amount of energy used. The choice between two such reasonable rates may properly be left to the consumer under ordinary circumstances."

The commission conceded the possibility of a utility making its classification of consumers unnecessarily complicated by the prescription of an unwarranted number of optional rates, but added that the evidence showed no such abuse in the instant case. *Spear & Co. v. Duquesne Light Co. (Pa.) Complaint Docket No. 8584.*



### Original Cost as Rate Base Used by the Oregon Commission

JUDGE Charles M. Thomas, Oregon's new one-man public utilities commissioner has handed down one of his first important decisions under the revised regulatory statutes of that state. The ruling came as a result of an investigation on the commissioner's own motion into the rates, rules, and practices of the Pacific Power & Light Company, which renders service in various communities in Washington, Idaho, and Oregon. The properties in Oregon generally fall into five natural groups: The Clatsop County System, the Deschutes System, the Mid-Columbia System, the Umatilla County System, and the Wallowa County System. Commissioner Thomas' opinion stated that on account of the interdependence of the communities in both states on the same power sources and transmission facilities it is very difficult to consider them in any way except as one economic and operating unit. The commissioner

found a total of \$9,003,027 as the minimum cost computed as of December 31, 1930, of the properties involved in Oregon service. The commissioner after finding that a rate revision proposed would yield income available for depreciation and return of \$654,149.60, stated:

"The minimum original cost of physical items of property, less retirements, exclusive of materials, supplies, cash working capital, and intangible capital items, approximately 75 per cent from actual cost of records, is \$9,003,027. Percentage of rate of income available for depreciation and return on this amount of capital is 7.26 per cent."

The commissioner accordingly concluded that the existing rates charged by the company were unjust, unreasonable, and discriminatory, and ordered it to effect the proposed schedule. *Re Pacific Power & Light Co. (Or.) U-F-589, Order No. 1961.*



### Utility Service by a Landlord Corporation Is Not Subject to Commission Jurisdiction

THE New York Public Service Commission recently investigated on its own motion the status of the Gair Realty Corporation, which has been furnishing steam and electrical service from one part of its property in New York city across public streets to another part of its property for the use of its tenants. This service was trans-

ported by the use of underground conduits for which the city of New York gave to the corporation permits terminable on sixty days' notice. The purpose of the commission's investigation was to determine whether the public service commission law was being violated, whether adequate service was being rendered, and whether reasonable



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rates were charged by the realty company to its tenants.

The commission found first of all that the terminable permits issued by the city were not valid franchises. The opinion thereupon concluded that the real estate company was organized under the Business Corporations Law and

not under the Transportation Corporations Law, and was controlled entirely by its filed certificate of incorporation and was not subject to the supervisory power of the commission. The proceeding was accordingly dismissed. *Re Gair Realty Corporation (N. Y.) Case No. 6092.*



### The Commission Has No Power to Deny Its Own Right to License Busses

A RATHER odd point arose in a recent application of the Brooklyn Bus Corporation for a certificate of convenience and necessity to operate bus routes in Manhattan, Brooklyn, and Queens. The application for certain portions of the route were opposed by another bus company. None of these companies had franchises from the city or certificates from the commission. Chairman Fullen stated:

"Both such opposing companies question the power of the city to grant franchises and of the commission to issue a certificate for operation over certain parts of the routes operated by them, claiming that they have vested rights to operate their busses over such portions under grants or consents from the former owners of the real property. It seems clear to me that such questions of law are not within the province of this commission to determine upon applications for certificates of public convenience and necessity." *Re Brooklyn Bus Corp. (N. Y.) Case No. 3038.*



### Tax Payments Entitle Railroads to More Regulatory Consideration than Busses

ONE of the most interesting recent regulatory decisions was an opinion rendered by Chairman John McCordle, for the Indiana commission in denying an application of a motor trucker for a certificate of convenience and necessity to operate in a territory that would compete substantially with the Pennsylvania Railroad Company. The motor trucker proposed to install store-door delivery service. Although admitting the convenience of this form of service the commission refused to permit its establishment because of the competition with the railroad carrier which was offering generally a better class of service to the community. The most interesting part of the opinion, however, had to do with the respective amount of taxes paid by the railroads

and motor bus carriers. The opinion stated:

"It is very evident that in this case the applicant and the railroad, operating in the same territory, cannot both survive. Which of the two should remain? The community as a whole is better served by the railroad than by the truck. Motor trucks pay no taxes in comparison with railroads. For the year 1929 the Pennsylvania Railroad paid in taxes in the counties of Randolph, Jay, and Adams the sum of \$179,677.16. The population of these three counties by the 1930 census is 65,662. On a per capita basis, the railroad pays \$2.73 per year for every man, woman, and child in these three counties. The railroad serving this territory was assessed at the sum of \$38,332 per mile for the year 1929, which amount includes main and sidetrack rolling stock and improvements but not the local assessment. It must not be forgotten that this assessed value is distributed in every taxing unit where prop-



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erty of the railroad is located. In regard to the operation of trucks over the public highways, for the year 1929 the average maintenance cost per mile on the various types of highways was \$564. For the year 1930 the average maintenance cost per mile was \$605, or an increase over 1929 of \$41 per mile, brought about largely by the operation of heavy trucks. It is interesting to note that the average cost of maintenance of the highways for a period of seven years, from 1924 to 1930, both years inclusive, was \$555 per mile. The 1930 average of \$605 shows an increase of \$50 per mile, which is conclusive evidence that the cost of maintaining the public highways of the state is increasing by leaps and

bounds. No expense of this kind can be attributed to the railroads."

The opinion went on to show that the railroads have not only done much to contribute to the prosperity of the nation by stabilizing the general financial structure of the country, but that a considerable part of the proceeds from taxes paid by the railroads were used to build the very roads upon which the motor carrier competitors would operate. *Re Drake & Houk Transfer Co. (Ind.) No. 1243-M.*



### A City Plant Is Not Obligated to Obtain Stand-by Service from an Outside Source

THE Indiana commission has dismissed a petition of an industrial consumer asking that the municipal electric light and power plant of Richmond should be required to procure stand-by service. The petition alleged that from March 4, 1929, to August 31, 1930, there was an aggregate of approximately seven hours and fifty-nine minutes when service was discontinued because of trouble at the plant which was not equipped to meet such emergencies. The evidence showed that the plant needed an additional source of supply although power failures were shown to be less frequent since the city discontinued service some months ago

to a certain heavy industrial consumer. The petitioner urged that the city should be compelled to obtain stand-by service from an outside source. The city wanted to meet this demand by increasing the capacity of its own plant. Commissioner Singleton in rendering the commission's opinion ruled that the city plant managers should be permitted to decide, in the first instance at least, the best way to cope with such emergencies, and that the commission's powers should be invoked only after the methods adopted by the city continued to prove inadequate. *Atlas Underwear Co. v. Richmond et al. (Ind.) No. 10415.*



### Other Important Rulings

THE court of appeals of the District of Columbia has held that an order of the public utilities commission of that jurisdiction requiring small deposits from customers otherwise unable to establish financial responsibility was not discriminatory or invalid under the D. C. Code (1930). *Riegel v. District of Columbia Public Utilities Commission (D. C. Ct. App.) No. 5037, 48 F. (2d) 1023.*

In authorizing the Pacific Greyhound Lines to issue new notes in the amount of \$80,000 and to execute a mortgage or deed of trust to secure one of the notes in the amount of \$28,000, the California commission stated that if the note is void under the Public Utilities Act, it cannot by subsequent order render a void note valid and ratify the action previously taken. The commission said it could, however, authorize the is-